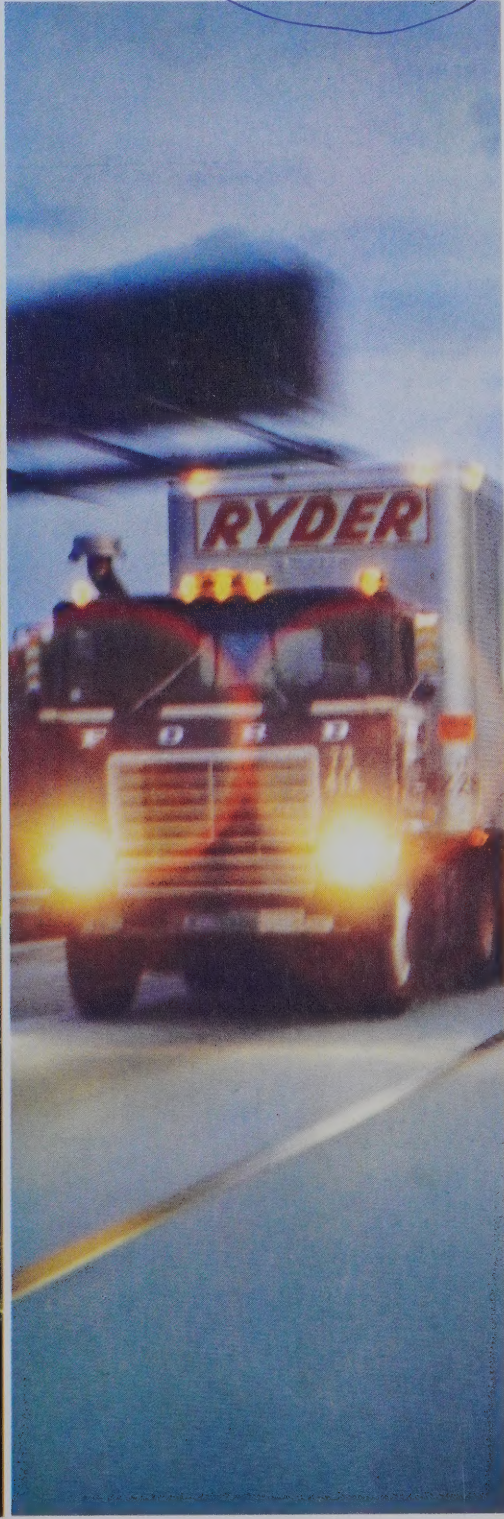


1972 Annual Report to Investors

*file
IU International Corp.*





New Name to be Voted at Annual Meeting

At its meeting on February 1, 1973, the Board of Directors of International Utilities Corporation recommended a change in the legal corporate name to *IU International Corporation*.

A new corporate symbol, shown at left, was introduced in January of this year. It features the familiar IU initials and emphasizes the "international" scope of the company's business.

The proposed name change will be submitted to shareholders for approval at the annual meeting, which will be held at 11:00 a.m., Eastern Standard Time, Tuesday, April 24, 1973, at 100 West Tenth Street, in Wilmington, Delaware.

A formal notice, together with a proxy statement and form of proxy, will be mailed to shareholders in advance of the annual meeting.

Front Cover

A giant Gotaas-Larsen super-tanker, the site of a Brewer resort development in Hawaii, and a Ryder truck illustrate the balanced diversification of IU—a billion-dollar growth company serving worldwide energy, environmental, and transportation/distribution markets. A pictorial profile of the company's major markets appears in the center section of this report.

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Financial Highlights

	1972	1971	% Change
Sales and Revenues	\$ 1,192,131,000	\$ 1,065,954,000	12%
Income from Operations	\$ 58,699,000	\$ 50,051,000	17%
Net Income	\$ 59,383,000 ⁽¹⁾	\$ 50,051,000	19%
Primary Earnings Per Share—Operations	\$ 1.88	\$ 1.64	15%
Primary Earnings Per Share	\$ 1.90 ⁽²⁾	\$ 1.64	16%
Dividends Paid Per Common Share	\$.725	\$.70	4%
Shareholders' Equity Per Common and Common Equivalent Share	\$ 13.09	\$ 11.84	11%
Average Common and Common Equivalent Shares	29,946,000	28,707,000	4%

⁽¹⁾ Including extraordinary item of \$684,000.

⁽²⁾ Including extraordinary item of two cents per share.

To Our Shareholders:

By every important financial measurement, 1972 was another record year for International Utilities Corporation.

Sales and revenues rose to \$1.19 billion, up 12 per cent from \$1.07 billion in 1971.

Net income from operations increased to \$58.7 million, a 17 per cent gain, from \$50.1 million in 1971.

Earnings per share from operations rose to \$1.88, up 15 per cent from \$1.64 in the previous year.

An extraordinary credit added two cents to per share results, bringing the total to \$1.90 per share on net income of \$59.4 million. There were no extraordinary items in 1971.

The dividend was increased on September 1, 1972, to an annual

rate of 75 cents per common share from the previous annual rate of 70 cents.

Where appropriate, figures for 1971 have been restated throughout this report to reflect the two-for-one stock split which was effective on September 29, 1972. Results are based on an average of 29.9 million common and common equivalent shares outstanding, up from 28.7 million shares a year earlier.

IU is a balanced company serving three growing worldwide markets—Energy, Transportation/Distribution, and Environmental.

The charts on these pages show the revenues and income derived from each of these three

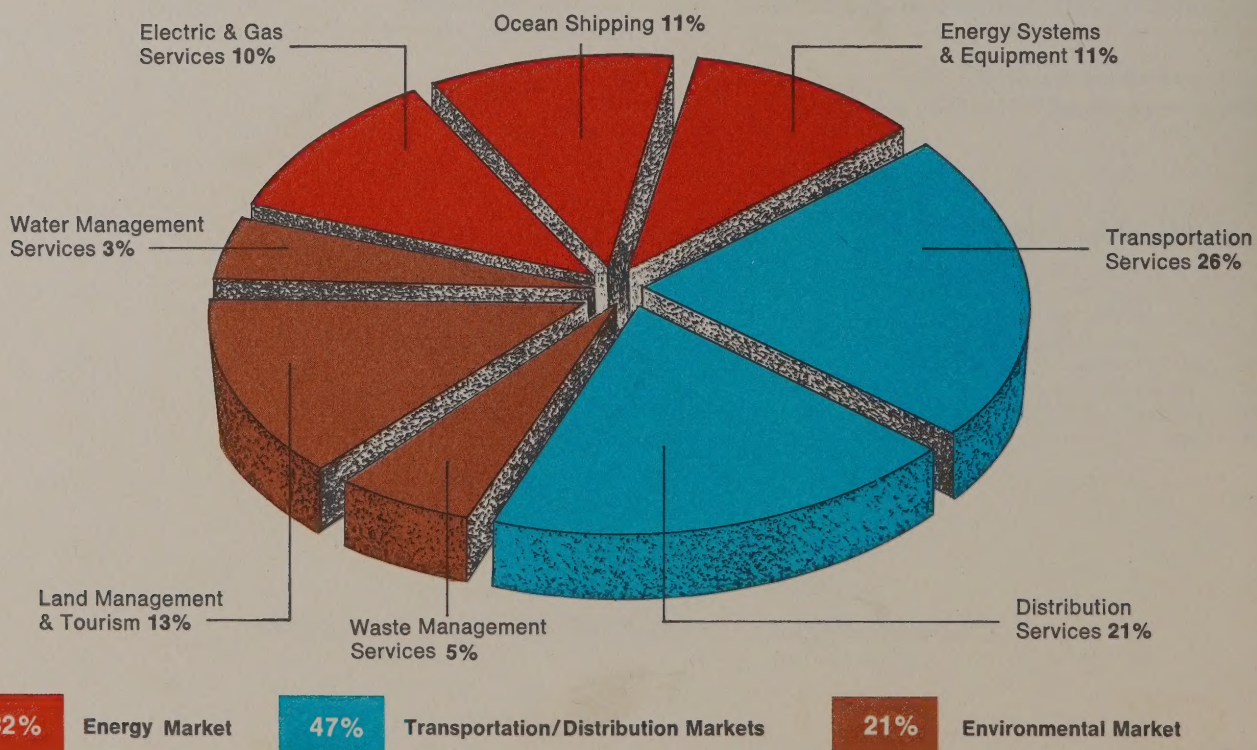
markets and the eight operating groups which serve them. Additional financial comparisons are shown in the Year in Review and Financial Review sections.

During 1972, only one of these eight operating groups, Transportation Services, had lower earnings than in 1971.

Following are highlights of 1972 in each of these areas, with earnings contributions to IU on a pre-tax basis.

Energy Markets contributed 60 per cent of IU's income and 32 per cent of revenues. The 1972 income contribution of \$55.8 million exceeded 1971 by 15 per cent, while revenues of \$365.8 million were 11 per cent higher.

1972 Sales and Revenues from Major Markets



File

INTERNATIONAL UTILITIES CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheet (in thousands)

June 30, 1972 (with comparative figures for 1971)

Interim
Report to
Shareholders

	1972	1971 (Note 2)
ASSETS		
Current assets:		
Cash	\$ 58,986	\$ 51,701
Accounts receivable, less allowances	171,850	184,037
Inventories	96,694	95,320
Prepaid expenses and other current assets	24,421	22,000
Total current assets	351,951	353,058
Investments	176,092	171,386
Property, plant and equipment, at cost	1,240,023	1,141,275
Less accumulated depreciation and amortization	388,186	352,679
Net property, plant and equipment	851,837	788,596
Deferred charges, less amortization	22,481	18,823
Operating rights and other intangibles, net	33,257	32,930
Total assets	<u>\$1,435,618</u>	<u>\$1,364,793</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Long-term debt—current maturities	\$ 56,106	\$ 42,659
Notes payable	80,839	90,191
Accounts payable and accrued liabilities	74,220	60,544
Income taxes	19,297	16,334
Other current liabilities	64,676	61,544
Total current liabilities	295,138	271,272
Long-term debt, excluding current maturities	511,611	506,669
Other liabilities	29,320	24,373
Deferred income taxes	22,248	25,907
Contributions and advances for construction	44,488	37,344
Minority interest in subsidiaries	116,545	119,794
Shareholders' equity	416,268	379,434
Total liabilities and shareholders' equity	<u>\$1,435,618</u>	<u>\$1,364,793</u>

See notes to financial statements.

IU

as of June 30, 1972

2

To the Shareholders:

New records in earnings per share, net income and revenues were established by IU for the second quarter and first half of 1972. The quarter ended June 30 was the eleventh consecutive one in which earnings per share exceeded those of the year-earlier period.

IU's net income for the quarter rose 17 per cent to \$14.4 million, or 92 cents a share, compared with a restated \$12.3 million, or 80 cents a share, a year earlier.

Net income for the first half rose to \$29.4 million, or \$1.90 a share, a 20 per cent gain from a restated \$24.5 million, or \$1.61 a share in the first six months of last year.

Revenues for the quarter rose to \$285.7 million, compared with \$263.7 million in 1971's second quarter, an 8 per cent increase of \$22 million. First half revenues were up to \$569.9 million compared with \$525.5 million in 1971, an 8 per cent increase of \$44.4 million.

Results are based on an average of 14.8 million common shares and common equivalent shares outstanding, up from 14.3 million a year earlier. The 1971 figures have been restated to reflect IU's acquisition of Pacific Intermountain Express Co. on a pooling-of-interests basis and for other minor adjustments.

Four of IU's five major business areas reported increased pre-tax earnings contributions for the quarter, and all five segments had higher pre-tax earnings for the first six months.

Earnings contribution from the Utilities group was down 5 per cent for the quarter due to a seasonal variation in scheduling of outside gas purchases. Utilities earned \$4.8 million for the quarter, compared with \$5 million for the same period in 1971. Pre-tax earnings for the half were \$17.4 million, compared with \$16.8 million in 1971's first six months, a 3 per cent gain.

The largest gains in earnings contributions were by the industrial units, which had a 47 per cent increase to \$5.8 million, compared with \$4 million in the second quarter a year ago. For the half year, earnings were \$8.9 million, compared with \$6 million, a 49 per cent gain. Revenues for the quarter were \$106.1 million, up from \$93.4 million, a 14 per cent increase.

The Energy and Process Industries group

DIVIDEND INCREASED; STOCK SPLIT PROPOSED

On July 6, IU's directors declared a quarterly dividend of 37½ cents per common share compared with the previous rate of 35 cents and declared the regular quarterly dividends on preferred shares, all in U. S. funds, payable September 1, 1972, to shareholders of record August 11, 1972. The increase continued IU's unbroken record of paying out a larger dividend every year since 1944. Payments to Canadian owners will be made at the rate of exchange in effect August 23, 1972.

A two-for-one split of IU's common shares was recommended by the directors and will be voted upon at a special shareholders' meeting to be held September 27, 1972, in Wilmington, Del., with owners of record August 11, 1972, entitled to vote. A proxy statement will be mailed to all stockholders on August 23. The split will lower the per share price and broaden ownership among more investors.

IU's Special Stock, Series A, and the \$1.25 Convertible Preferred Stock would not be split. Series A would be convertible into 2.3398 shares of common through December 31, 1972, and into 2.4334 shares of common through December 31, 1973, after which conversion rates would increase to a maximum of 4.3822 shares on January 1, 1988. Each share of the \$1.25 Convertible Preferred would be convertible any time into 1.6 shares of common.

The directors also called for redemption of IU's \$6 Preferred Stock, Series B, at \$101.1833 per share, effective August 11, 1972. On May 4, the Board had called for redemption of the \$6 Preferred Stock, Series A, at \$103.2333 per share, effective June 15, 1972. These moves simplify IU's capital structure by reducing the number of preferred stock series to two, compared with four as of December 31, 1971.

continued to provide the major momentum in Industrials through, in part, improved coordination of group marketing efforts.

To expand market potential of this group, IU completed the purchase of Hills-McCanna from Pennwalt Corporation on July 21. Hills-McCanna, which manufactures valves, valve actuators, and pumps, had sales last year of approximately \$16 million.

Land Transportation's second quarter revenues were \$75.7 million, up 12 per cent from \$67.4 million a year ago. Earnings contribution for the quarter was \$4.1 million, up 4 per cent

from \$3.9 million. For the six months, earnings were \$5.8 million, up 5 per cent from \$5.5 million. The modest gain in earnings reflects management's decision to invest in improvement of customer services, sacrificing some short-term profit in order to gain a greater market share in the future.

Effective July 17, the Civil Aeronautics Board granted approval to P-I-E to resume its airfreight forwarding operation. The company plans a service that can ship airfreight into all U. S. cities and nearly any city in the world.

Ocean Shipping earned \$6.8 million in the second quarter as compared with \$6.7 million in the similar period last year, a 2 per cent increase. Revenues were \$29.5 million, compared with \$33.3 million in the same quarter of 1971, an 11 per cent decrease. For the half year, our Gotaas-Larsen subsidiary earned \$13.8 million, a 19 per cent increase from the \$11.6 million reported a year ago.

The fact that Gotaas-Larsen's second quarter earnings increased on reduced revenues is explained by equity accounting rules under which we include in net profit our share of earnings but not our share of revenues from those ships in which we have less than a majority interest.

On June 14, Gotaas-Larsen exercised its option to purchase its second 125,000-cubic-meter liquefied natural gas carrier, which will be delivered in the second quarter of 1976.

IU's share of the earnings of its 54 per cent-owned subsidiary, C. Brewer and Co., Ltd., showed a 3 per cent increase for the quarter, \$1.47 million compared with \$1.43 million. For the first half, the Hawaiian-based company had a 9 per cent increase in pre-tax earnings.

The performance at mid-year illustrates the integrated balance of IU's businesses and their complementary economic and financial characteristics. Although the third quarter is traditionally the poorest for most of our businesses, the company is in a strong position for continued growth for the year as a whole and we are confident of achieving our goal of 15 per cent growth.

July 28, 1972

Chairman and President

INTERNATIONAL UTILITIES CORPORATION AND SUBSIDIARIES

Sources of Sales & Revenues and Income (in thousands)

	Sales & Revenues				Income(b)			
	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
	1972	1971(a)	1972	1971(a)	1972	1971(a)	1972	1971(a)
Contributions by major operating groups:								
Land Transportation	\$ 75,709	\$ 67,400	\$146,492	\$130,724	\$ 4,108	\$ 3,934	\$ 5,814	\$ 5,515
Ocean Shipping	29,463	33,254	59,278	61,137	6,827	6,721	13,829	11,644
Utilities	33,599	30,527	80,425	72,653	4,758	5,018	17,388	16,825
Industrials	106,099	93,412	201,189	183,616	5,824	3,950	8,887	5,979
Agriculture/Land Development	34,310	33,047	70,432	65,282	1,471(c)	1,430(c)	3,329(c)	3,050(c)
Total major operating groups	279,180	257,640	557,816	513,412	22,988	21,053	49,247	43,013
Other	4,064	3,178	7,861	6,540	(427)	(268)	(604)	(262)
Corporate investment income	2,480	2,888	4,245	5,504	504	709	898	1,393
Corporate expenses	—	—	—	—	(3,319)	(3,545)	(6,103)	(6,226)
Income taxes	—	—	—	—	(5,442)	(5,510)	(14,162)	(13,109)
Foreign exchange adjustments	—	—	—	—	110	(158)	89	(269)
Total sales & revenues	<u>\$285,724</u>	<u>\$263,706</u>	<u>\$569,922</u>	<u>\$525,456</u>				
Net income					14,414	12,281	29,365	24,540
Dividend requirement on preferred stock					578	707	1,124	1,478
Balance applicable to common shares and common equivalent shares					<u>\$13,836</u>	<u>\$11,574</u>	<u>\$28,241</u>	<u>\$23,062</u>

(a) Restated to reflect the operations of Pacific Intermountain Express Co. and for other minor adjustments.

(b) The contribution of each operating group is stated before income taxes, showing period-to-period operating performance.

(c) After deducting 46 per cent minority interest.

INTERNATIONAL UTILITIES CORPORATION AND SUBSIDIARIES
Statement of Consolidated Income (in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1972	1971 (Note 2)	1972	1971 (Note 2)
Sales, revenues and other income , including interest and dividends, three months 1972—\$2,480; 1971—\$2,888 and six months 1972—\$4,245; 1971—\$5,504	<u>\$285,724</u>	<u>\$263,706</u>	<u>\$569,922</u>	<u>\$525,456</u>
Costs and expenses:				
Cost of products sold and other operating costs and expenses, excluding depreciation and amortization	204,078	186,940	403,540	370,919
Selling, general and administrative expenses, excluding depreciation and amortization ..	36,217	34,406	70,835	67,031
Depreciation and amortization	14,077	12,930	28,763	26,782
Interest and debt expense	9,431	10,032	18,665	19,868
Income taxes	5,442	5,510	14,162	13,109
Minority interests	2,065	1,607	4,592	3,207
	<u>271,310</u>	<u>251,425</u>	<u>540,557</u>	<u>500,916</u>
Net income	14,414	12,281	29,365	24,540
Dividend requirement on preferred stock	578	707	1,124	1,478
Balance applicable to common shares and common equivalent shares	<u>\$ 13,836</u>	<u>\$ 11,574</u>	<u>\$ 28,241</u>	<u>\$ 23,062</u>
Per average common share and common equivalent share (Note 3):				
Primary	<u>\$.92</u>	<u>\$.80</u>	<u>\$ 1.90</u>	<u>\$ 1.61</u>
Fully diluted	<u>\$.81</u>	<u>\$.69</u>	<u>\$ 1.66</u>	<u>\$ 1.38</u>
Common shares and common equivalent shares used in computing primary net income per share data			<u>14,844</u>	<u>14,308</u>

Notes to financial statements:

1. The financial statements in this report are based on the companies' accounts without audit.
2. Restated to include the accounts of Pacific Intermountain Express Co. and for other minor adjustments.
3. Common equivalent shares consist of Special Stock, Series A at appropriate conversion rate and the effect of shares issuable under stock option and stock purchase plans. Fully diluted earnings

per share assume, in addition, the conversion of convertible preferred stocks and bonds and Special Stock, Series A at conversion rate as of January 1, 1983. Fully diluted earnings per share do not give effect to future earnings retained and employed prior to 1983 by reason of the non-dividend character of the Special Stock, Series A.

▪ Gotaas-Larsen's bulk shipping fleet, chiefly oil and coal carriers, provided earnings of \$31.9 million, an 11 per cent increase over the \$28.7 million reported in 1971.

The company expects to continue to share in growing requirements for transportation of oil and liquefied natural gas (LNG). In addition to ordering its second and third 125,000-cubic-meter LNG carriers, the company has ordered an Ultra Large Crude Carrier of 357,000 deadweight tons for 1976 delivery and options have been taken for additional ships of these classes. As of the date of this report, Gotaas-Larsen had in service 54 ships totaling 4.3 million dwt.

Seven more ships totaling 800,000 dwt and two semi-submersible offshore drilling rigs are to be delivered in 1973-77.

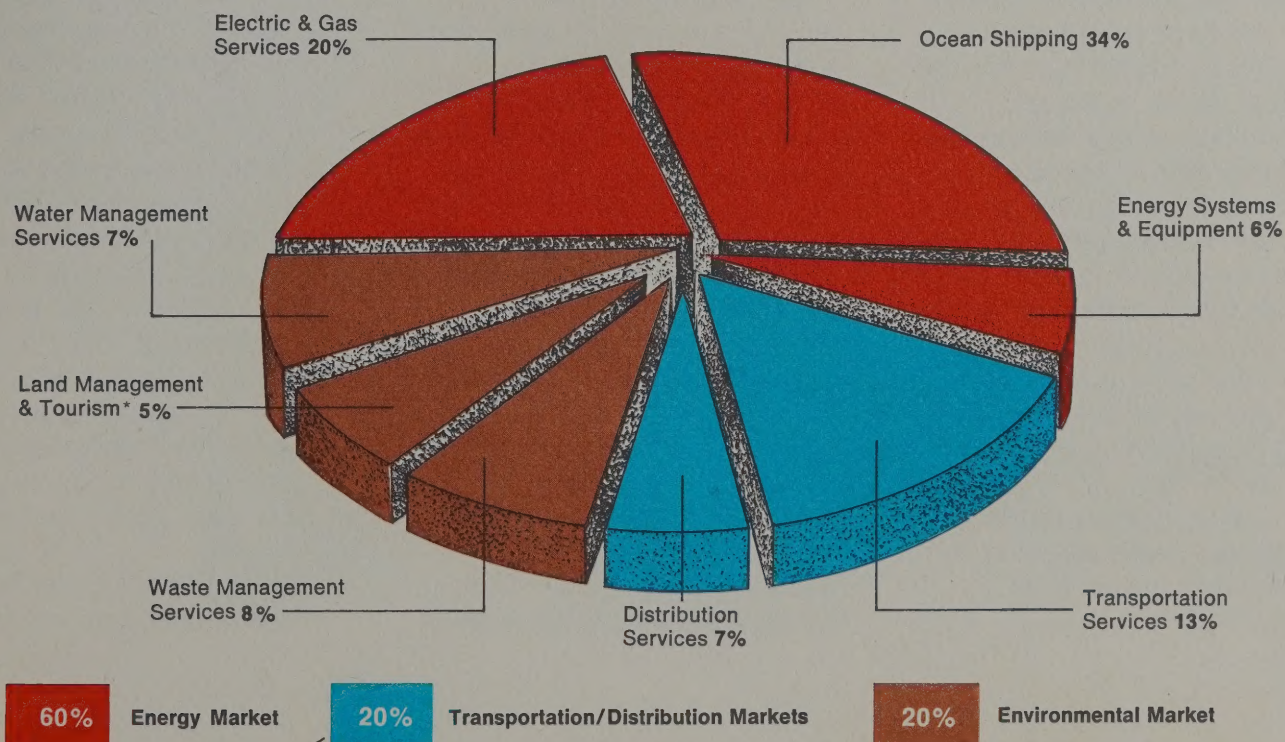
▪ Electric and gas services, provided by Canadian Utilities, Limited, in Western Canada serve the growing Alberta area, which is closely linked to oil and gas expansion in the Arctic. The income contribution of \$18.5 million in 1972 approximately equaled 1971 results. Although revenues were up, earnings growth was hampered due to unusually high purchases of gas from outside sources during the early part of 1972.

▪ The Energy Systems group had a strong year, as earnings

contribution rose to \$5.4 million, more than two-and-one-half times over the depressed 1971 level. These operations manufacture systems and equipment for the worldwide petroleum industry and for the electric power and chemical industries in the United States. Hills-McCanna, a manufacturer of high quality valves and related products, was added to the group in mid-year.

Transportation/Distribution Markets in 1972 contributed 20 per cent of IU's income and 47 per cent of revenues. Although revenues increased by 11 per cent over 1971 to \$548.0 million, income of \$19.2 million was virtually the same as in the previous year.

1972 Income Before Taxes from Major Markets*

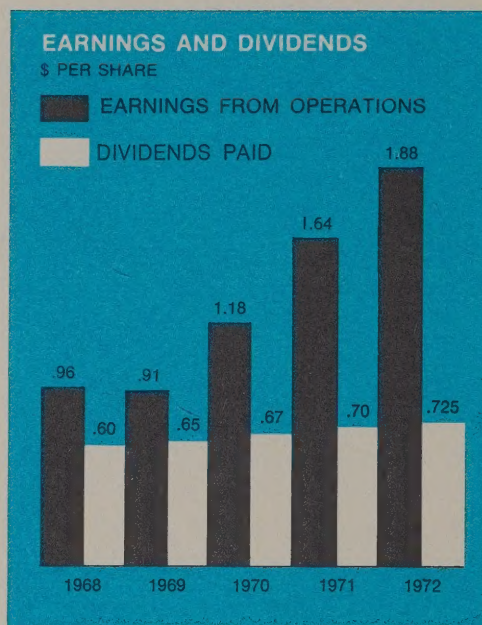


*Includes C. Brewer's Contribution on an after-tax basis.

- In Transportation Services, Ryder Truck Lines had another strong year in both income contribution and revenues, but overall group profits declined to \$12.8 million, reflecting our decision to spend heavily on improving customer services at Pacific Intermountain Express. During 1972, the first year of IU's ownership, P-I-E opened 13 new terminals. IU is continuing to invest heavily in this segment of the business and expects to accomplish in two years improvements that took five to accomplish at Ryder following its acquisition in 1965.

In late 1972 IU announced agreements, subject to various approvals, to acquire Airborne Freight Corporation, a major U.S. and international air freight forwarder, and Global Van Lines, one of the leading movers of household goods. These firms are closely related to our existing transportation business.

- Distribution Services had a 25 per cent gain in income contribution to \$6.4 million in 1972. This group, which distributes food, paper and industrial products in southeastern and midwestern states, has shown steady internal growth. In addition, the geographic market coverage was broadened by the acquisition of Tayloe Paper Co. in late 1972 and will be further strengthened by the planned acquisition of Taylor Engineering Corp. in early 1973.



Environmental Markets in 1972 contributed 20 per cent of IU's income and 21 per cent of revenues as operations showed improved performance over 1971. These units had a combined income gain of 24 per cent to \$18.9 million on revenues of \$246.0 million.

- Waste Management Services, a profitable field for IU for more than a dozen years, had a 44 per cent increase in earnings to \$7.5 million in 1972. Much of this improvement came from the Corson operations, pioneers and leaders in the technology of using lime for pollution control. Since its acquisition in March of 1972, Corson has provided the technology which resulted in formation of IU Conversion Systems, a new unit involved in converting sulphur and other

pollutants from power plant smoke stacks into useful construction materials.

International Mill Services, through which IU has supplied waste management services to steel mills since 1960, continues to expand profitably in North and South America.

- Water Management Services increased its income contribution in 1972 by only three per cent to \$6.6 million, as revenues remained at the same level as in 1971. General Waterworks Corp. operates in 18 states, but had no further geographic expansion in 1972 and most of its internal growth was discounted by the delaying effects of Phase II price controls. Better results are expected in 1973.

- Land Management and Tourism operations had a 34 per cent increase in profits to \$4.8 million. Because of the large minority interest the earnings of C. Brewer and Company, Limited, IU's 54 per cent-owned Hawaiian affiliate, are included here after income taxes. Waiakea Resort Village, the first major facility in Brewer's land development program on the Big Island of Hawaii, was opened last September. This Polynesian complex is not only timed to take advantage of continued growth in tourism, but is also designed to demonstrate the company's adherence to environmental standards.

IU's activities in the Caribbean cruise shipping market were

expanded in 1972 with the delivery of two additional cruise ships to affiliates of Gotaas-Larsen.

Within the past 10 years, IU's revenues and income have increased fourfold. Earnings per share have increased from 50 cents to \$1.88, a compound annual growth rate of 15.8 per cent. Dividends increased at a compound rate of 7.7 per cent. In the past five years revenues, income and earnings per share have doubled.

IU will celebrate its 50th anniversary in 1974. Dividends have been paid for 48 consecutive years. A higher dividend has been paid each year in the 28 years since the present class of common stock was first issued in 1944. During those 28 years, the common stock was split four times for a total of 24-for-1.

As a result of our successful efforts to achieve a better balance among IU's sources of income, the word "utilities" is no longer appropriate in our corporate name, but we do not want to lose identity with our 48-year growth record. Consequently, the Board of Directors has recommended that the shareholders at the annual meeting in April adopt *IU International* as the new corporate name.

Looking ahead, we feel that the underlying fundamentals in our three major markets should continue to provide a strong basis for growth throughout the 1970s.

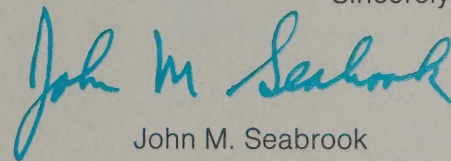
IU has been successful in anticipating the major expansion of world energy demands and is well positioned to continue capitalizing on them in the years ahead.

The changing U.S. population pattern gives IU continued excellent growth prospects in transportation and distribution markets. In addition, the proposed acquisitions of Airborne and Global would strengthen international transportation capabilities.

IU is one of the few major companies with a long and profitable record in the field of waste management and recycling. This record should be enhanced in the future. The environmental markets offer almost unlimited opportunities for a company that is ready to provide solutions to those problems of our industrial society.

IU has the resources and the experience to press for continued growth in all three of these markets. We do not promise any fixed growth rate in any one field or in any one year, but our balanced approach will, we are confident, ensure a better-than-average growth rate over the next ten years as it has in the past ten. Our corporate objective continues to be providing shareholders with above-average earnings growth. We look forward to 1973 with confidence.

Sincerely,



John M. Seabrook
Chairman and President



February 28, 1973

Energy Markets

IU energy markets include ocean shipping; energy systems and equipment; and electric and gas services. In 1972, these units produced 60 per cent of income and 32 per cent of revenues.

Ocean Shipping Gotaas-Larsen, acquired in 1963, has been profitable every year since it was founded in 1946. In 1972, the IU subsidiary had another record year.

Revenues climbed 7 per cent, to \$123.9 million from \$116.1 million in 1971. Earnings contribution, however, rose more rapidly, increasing 11 per cent to \$31.9 million as compared with \$28.7 million a year earlier.

While Gotaas-Larsen is producing earnings from its current generation of Very Large Crude Carriers—VLCCs—it continues to broaden its horizons with further technical developments aimed at participation in rapidly expanding energy markets.

The company has placed an order for the first of a new class of Ultra Large Crude Carriers (ULCCs) of 357,000 deadweight tons (dwt) for delivery in the first quarter of 1976. This new vessel was ordered after careful analysis of petroleum supply/demand factors and is designed to meet the transportation needs of the oil industry during the 1975-90 period.

Factors affecting the world shipping market include economies of scale that the larger tankers offer the major international oil companies which

charter the vessels, growing demand for crude oil and the increasing dependence on Middle East oil to meet this demand.

IU's strategy also includes the development of new shipping markets. For that purpose, Gotaas-Larsen has ordered its second and third 125,000-cubic-meter liquefied natural gas (LNG) carriers for delivery in 1976 and 1977. With these three vessels, the new ULCC, and two semi-submersible drilling rigs now on order, Gotaas-Larsen has committed about \$400 million to new—but proven—technology at sea.

OCEAN SHIPPING (Millions)

	Revenues	Income Contribution
1972	\$123.9	\$31.9
1971	116.1	28.7
1970	81.1	23.3
1969	43.0	6.8

Meanwhile, the current fleet continues to grow. The fourth 216,000 dwt VLCC, Golar Kansai, was delivered in December 1972, and the fifth, Golar Robin, will be delivered in March 1973. A sixth similar ship, partially owned, was delivered in October 1972. With these deliveries, Gotaas-Larsen at the beginning of March 1973 was operating a fleet of 54 bulk cargo ships totaling 4.3 million dwt—twelve times the size of the fleet when it joined IU.

During 1972, Gotaas-Larsen continued its basic policy of placing ships on medium to long-

term charters with staggered maturities to assure a steady cash flow. Two of the 216,000 dwt VLCCs were chartered out in 1972, including one 10-year charter, the first of that duration contracted by Gotaas-Larsen for a unit of the VLCC class. In addition, the long-term contract under which Gotaas-Larsen bulk carriers carry coal and ore to an Argentine steel mill was extended at the end of the year.

At year-end 1972, 73 per cent of the fleet's tonnage was fixed for 1973, 59 per cent for 1974, and 53 per cent for 1975.

The bulk shipping market strengthened considerably in the last half of 1972 and the outlook remains strong for 1973.

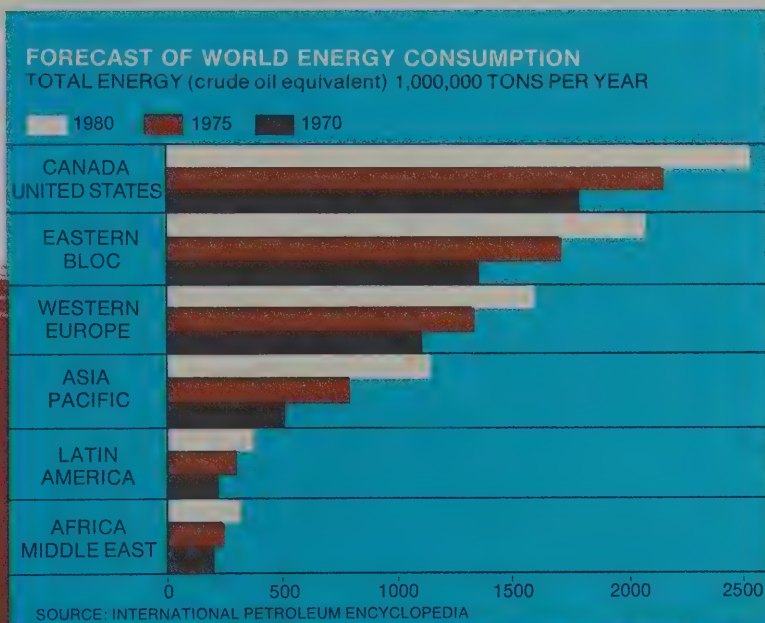


The company places heavy stress on operating efficiency at sea and in port, attainable only by professionally skilled masters, officers, and crews. This is particularly important with the capital investment per crewman afloat now ranging between \$500,000 and \$1 million. For LNG carriers, the cost will be upward of \$2 million per crew member.

With a view to broadening its participation in the energy field, Gotaas-Larsen early in 1972 purchased 40 per cent of the stock of Det Nordenfjeldske Dampskipselskab (NFDS), a Norwegian shipping company which is developing new capabilities in North Sea oil search and logistical support operations. In a related move, Gotaas-Larsen signed a contract with Rowan

Companies Inc., of Houston, to manage and operate the two semi-submersible drilling rigs now on order for completion in late 1973 and early 1974.

Gotaas-Larsen also agreed during 1972 to participate in several different consortiums which are engaged in oil drilling projects on the Norwegian Continental Shelf and in the Bering Sea.



Energy Systems & Equipment

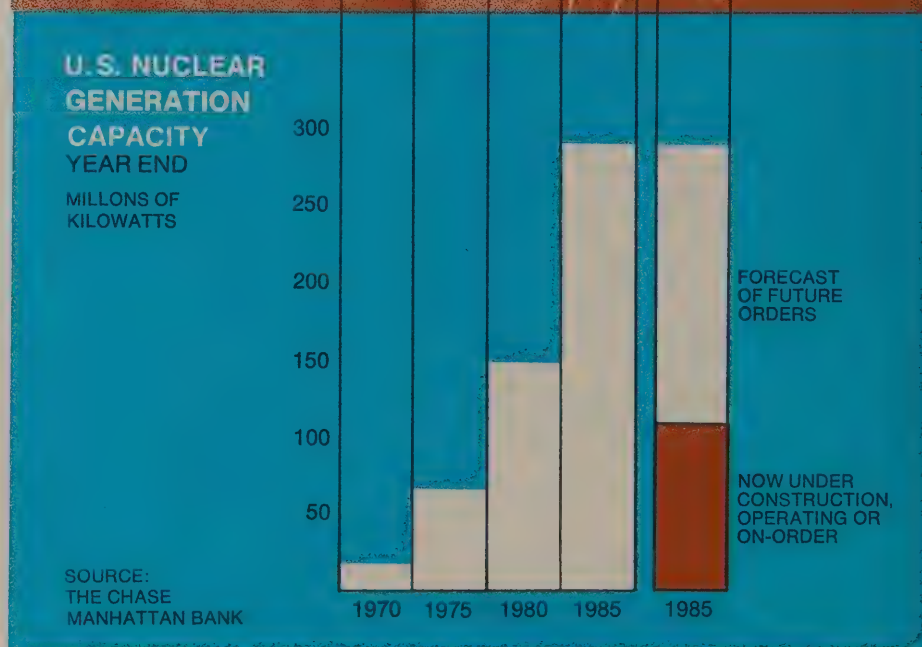
The earnings contribution of IU's Energy Systems group rose to \$5.4 million in 1972, almost four times the contribution of \$1.5 million a year earlier. Sales were up 13 per cent to \$127.6 million from \$112.5 million in 1971.

The group's entire product line is directly related to energy. IU subsidiaries make valves, piping, fractionating and cooling towers, pressure vessels, compressors, heat exchangers, and other components used in electric generating plants, petroleum refineries and in petroleum, oil, and gas processing—natural, synthetic, and liquefied.

ENERGY SYSTEMS (Millions)

	Sales	Income Contribution
1972	\$127.6	\$5.4
1971	112.5	1.5
1970	113.3	.5
1969	111.8	(1.1)

An important share of the earnings improvement was generated overseas. The contract obtained in 1971 to provide \$26 million worth of valves for the pipeline that will carry natural gas from the Soviet Union to Trieste is ahead of schedule. It will be completed in mid-1973. This contract included the building of an entirely new plant in northern Italy to produce valves weighing up to 35 tons each, and designed to operate in temperatures down to minus 60 degrees centigrade.



During 1972, investment programs were approved to expand the group's nuclear pipe fabricating capability and to develop the facilities needed for production of nuclear and other high-quality valves for future applications.

Companies in the group obtained orders to supply capital equipment to more than half the substitute natural gas plants currently in the purchasing stage in the U.S. In six of the SNG plants being constructed, the group was awarded 82 per cent of the valve business.

In mid-year, IU bought the Hills-McCanna Company of Carpentersville, Illinois, a substantial manufacturer of ball valves. In addition, a butterfly valve product line was purchased later in the year.

A new Energy Research and Technical Center was set up in Braintree, Massachusetts to create improved products, including valves and actuators, for the nuclear power industry. A similar R & D facility to concentrate on flow systems for the oil and gas transmission industries was established in Oakland, California.

Due to the accelerated demand for fabricated piping systems for the oil, petrochemical and power industries, the company is planning to expand its nuclear and cryogenic manufacturing capability in Texas.

Electric & Gas Services Growth of IU's electric and gas services subsidiary, Canadian Utilities, Limited, paralleled the robust petroleum-based prosperity of the Province of Alberta in 1972. The company's revenues were \$114.3 million, a 13.1 per cent gain over \$101.1 million in the previous year.

Natural gas revenues for the year increased \$8.5 million, or 12 per cent, to \$80.1 million due both to system growth and below-normal temperatures. Natural gas volume was 232.8 billion cubic feet, up 13 per cent over 1971.

Electric revenues rose to \$34.2 million, an 11 per cent year-to-year increase, while electric energy sales totaled 1.5 billion kilowatt hours, a 19 per cent yearly gain.

ELECTRIC AND GAS SERVICES
(Millions)

	Revenues	Income Contribution
1972	\$114.3	\$18.5
1971	101.1	18.5
1970	86.8	15.5
1969	75.5	13.6

CU's pre-tax income contribution was \$18.5 million—nearly level with 1971. This result was due primarily to outside purchases of gas, which are more costly than gas produced in company-owned fields, to meet unusually high demand. A change in Canadian tax laws and the application of additional accelerated depreciation on new

power plants enabled CU to produce a 16 per cent gain in after-tax income.

In 1972, Alberta's output of oil rose 21 per cent, while gas production was up 17 per cent and coal tonnage mined grew 15 per cent, all indications of western Canada's dramatic growth rate. While use of electric energy in Canada doubled in the past decade, it took only half that time for Alberta's consumption of electricity to double. In the Canadian Utilities service area, it took only four years.

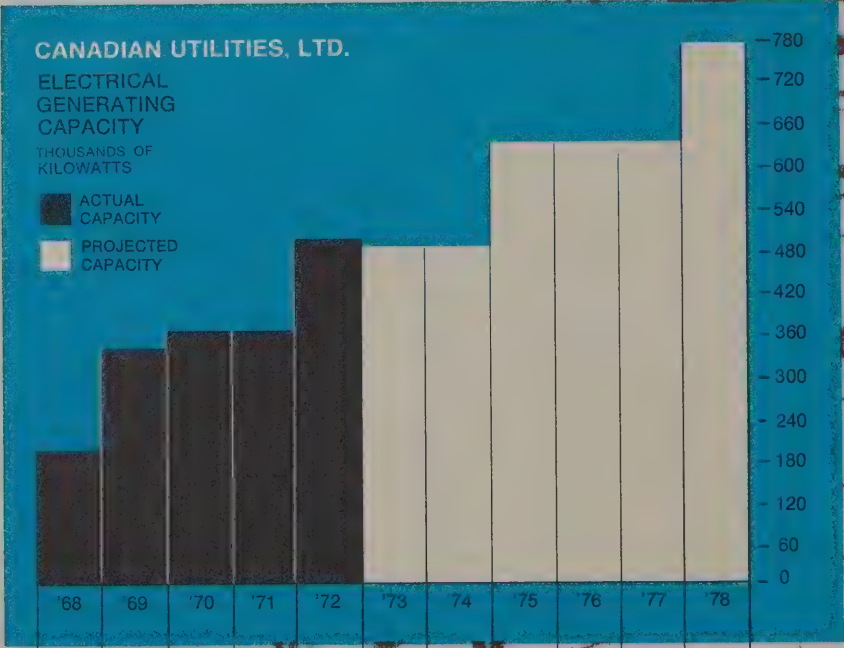
Due to the maturity of its gas operation and attractive retail rates for consumers, CU has attained nearly a 100 per cent market penetration. Some 1,250,000 residents in 251 communities are served with natural gas, and demand will grow with the economy and population. Electric power is supplied to more than 250,000 people in 364 communities. Growth for the electric operations will be based on further market penetration as well as economic uptrends.

To supply future growth needs of its service area, CU's capital expenditures totaled \$42 million in 1972. An outlay of \$43 million is projected for 1973.

At Grand Cache in Northern Alberta, the new \$37 million H. R. Milner Generating Station, a major coal-burning plant which can generate up to 150,000 kilowatts of electric power, is now supplying the northern portion of

the Alberta grid. Work is also proceeding on a fourth coal-fired generating unit of similar capacity that will be in operation at Battle River for the 1975-76 winter. This unit will raise the station's overall capacity to 362,000 kilowatts.

An important indication of the electric and gas services' growth potential is evident at the Athabasca Tar Sands site, where an estimated 600 billion barrels of oil constitute one of the largest known oil deposits in the Western World. Development at this site is expected to move forward significantly in 1973. A power load of approximately 100 megawatts, or almost one-third of CU's existing electric load, is envisioned as an ultimate requirement there by one proposed oil extraction firm alone.



Transportation/Distribution Markets

IU transportation/distribution markets embrace trucking; air freight forwarding; and distribution services. In 1972, these units produced 20 per cent of income and 47 per cent of revenues.

Transportation Services

Though 1972 was another year of strong performance by Ryder Truck Lines, heavy expenditures for improved customer service by Pacific Intermountain Express caused earnings of Transportation Services to fall below the 1971 level. Phase II controls also delayed rate increases needed to meet contractual wage raises at P-I-E.

For the year, earnings contribution of the group was \$12.8 million, a decline of 9 per cent from \$14.0 million a year earlier. Revenues rose 12 per cent to \$306.0 million, up from \$272.6 million in 1971.

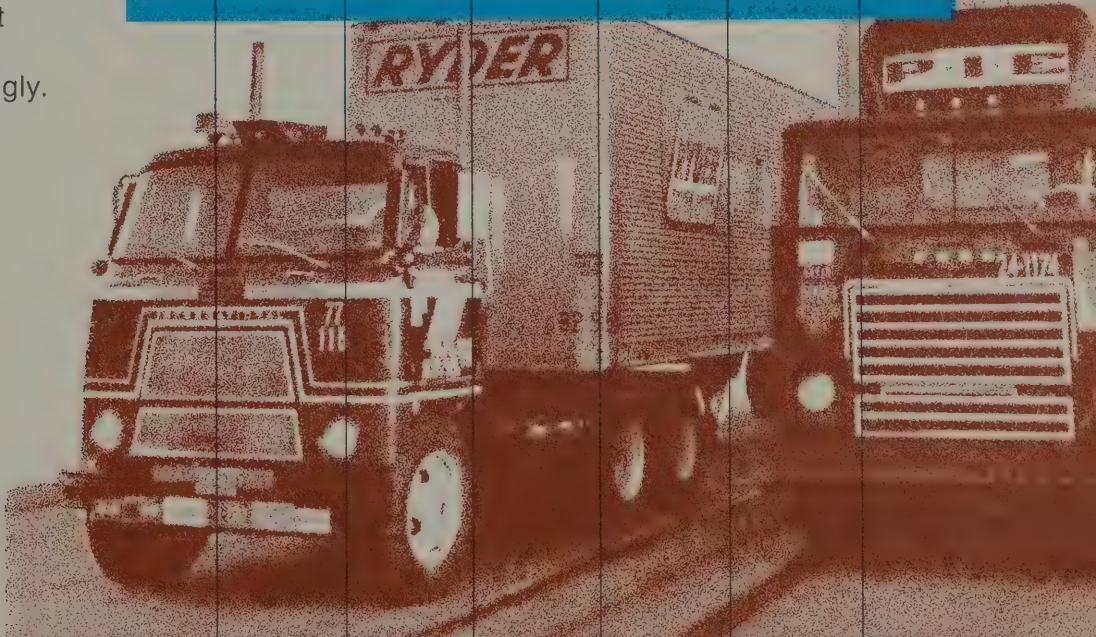
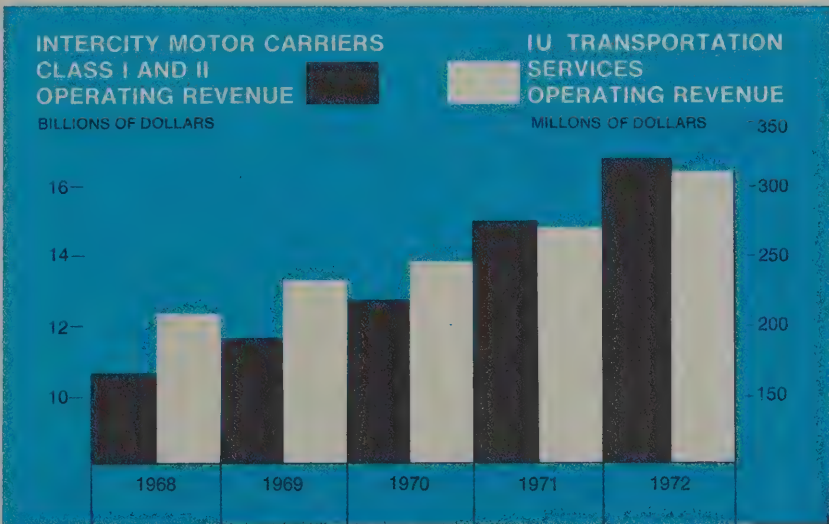
Improved services cost more to provide, but with aggressive sales programs those costs are more than recaptured eventually through greater market share. In 1972, P-I-E was moving through that time lag and its earnings contribution suffered accordingly.

The healthy earnings contributions of other IU units have made possible a program designed to improve P-I-E in two years to the extent achieved at Ryder in five years.

During the year P-I-E installed a modern computer-based management information system similar to the system developed at Ryder. While the cost of the installation was fully expensed in 1972, this system, when it is operating at full efficiency, will permit improved cost control and

TRANSPORTATION SERVICES (Millions)		
	Revenues	Income Contribution
1972	\$306.0	\$12.8
1971	272.6	14.0
1970	244.8	8.1
1969	233.5	6.5

better customer service for many future years. P-I-E made major expenditures to educate management at all levels in more sophisticated operational and cost control techniques.



P-I-E also opened 13 new terminals during 1972, compared with only three in the two previous years. Again, substantial costs were incurred within the year, with resulting benefits in years to come.

Since 1965, IU has steadily expanded its transportation activities to form a multi-faceted network of services in operation or programmed by the end of 1972.

The first step in the development of IU's transportation capability was to apply modern management techniques to Ryder's operations. At the same time the company's route network was transformed from a relatively short-haul operation in the southeastern states into a solidly profitable long-haul company covering nearly every major metropolitan area east of the Mississippi.

The second stage in IU's plan was geographic expansion into the coast-to-coast trucking markets. The acquisition of Pacific Intermountain Express, completed in November 1971, achieved that objective.

Under IU's organizational plan for P-I-E and Ryder, each division will maintain its identity in the marketplace, serving various points on the combined route network. To shippers and consumers, the proposed merger will mean the first comprehensive network of service between the southeastern states and the entire western part of the country. For the two companies, the merger

should also produce greater market penetration.

The third aspect of IU's planned expansion is entry into related types of transportation services. In November and December 1972, IU announced agreements to acquire Airborne Freight Corp. and Global Van Lines. Consummation of the Airborne and Global mergers is subject to approval by both the Civil Aeronautics Board and the Interstate Commerce Commission. The Airborne shareholders must also approve that merger.

Airborne is the second largest air freight forwarder in the United States, with 1972 revenues of approximately \$90 million and a network of more than 70 stations throughout the United States and the Far East. IU already has a modest participation in air freight forwarding through P-I-E Air Freight Forwarding, which is particularly active in nine countries in Europe and will integrate with Airborne to form a worldwide service. Because air freight forwarders handle the surface collection, consolidation, and delivery of shipments, their business is directly related to IU's experience in the trucking field.

Global Van Lines, with annual revenues of approximately \$40 million, is third in size among the independent movers of household and business goods. The company is particularly active in the international field, and as in the case of Airborne, its basic

business is closely related to IU's trucking activities.

Assuming the approval of both these acquisitions, approximately a year from now IU would have a worldwide transportation services network with annual revenues approaching \$500 million.

Distribution Services IU's Distribution Services group continued to expand in 1972 through both internal growth and acquisition.

The group's earnings contribution was \$6.4 million, a 25 per cent gain over \$5.1 million in 1971. Record sales of \$242.0 million represented a 10 per cent increase over \$219.5 million in the previous year.

DISTRIBUTION SERVICES
(Millions)

	Sales	Income Contribution
1972	\$242.0	\$6.4
1971	219.5	5.1
1970	205.8	4.4
1969	181.9	4.1

Added to the IU distribution group in 1972 were Trade Supply, Inc., of Alexandria, Virginia; Tayloe Paper Co., of Memphis, Tennessee; and Crescent Paper Co., of Indianapolis, Indiana, all paper and paper products distributors.

IU has agreements to acquire Taylor Engineering Corp., of Detroit, Michigan, a distributor of piping materials and plumbing and heating supplies, and

Saunders & Co., of Chicago, Illinois, a plumbing and heating supplies distributor. These two acquisitions should be completed in the spring of 1973.

The distribution of supplies and materials to manufacturers, contractors, utilities, transportation, and government agencies is a \$20 billion-plus market involving all the items used in manufacturing except the raw materials and capital equipment.

Acquisition of the paper distribution firms added four new states to IU's 11-state distribution network, which now extends beyond the Southeast into the Middle West.

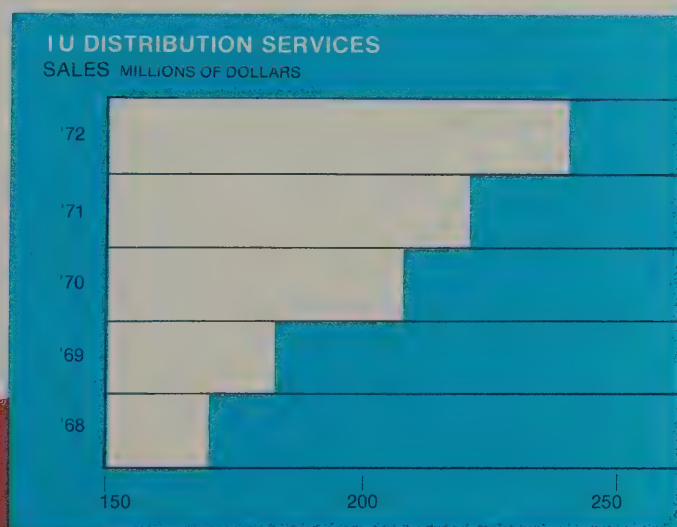
The distribution system for dry, non-perishable products blankets the Southeast from 21 warehouse locations handling over 25,000 separate stock items, including electrical and janitorial supplies, photocopy equipment, condiments and non-perishable food items.

The dairy products segment of IU's distribution system has the largest market penetration in its field in the Southeast.

IU's institutional food service operation, which distributes provisions to hotels, restaurants and schools, has good growth potential because of the highly fractionalized nature of the rapidly expanding food service industry, plus the continuing trend toward having more meals away from home.

The Distribution Services group should continue to benefit from the transferral of many of the management systems of IU's motor carrier operations since both functions involve the daily handling of thousands of small shipments.

In 1973, a new 140,000-square-foot warehouse will be leased in Miami, Florida, and a 278,000-square-foot warehouse will be completed in Charlotte, North Carolina.



Environmental Markets

IU environmental markets include waste management services; water management services; and land management and tourism. In 1972, these units produced 20 per cent of income and 21 per cent of revenues.

Waste Management Services

Paced by the continued growth of its slag recovery and processing services to steel mills, as well as its lime and limestone operations, IU's Waste Management group increased its earnings contribution by 44 per cent in 1972 to \$7.5 million, compared with \$5.2 million a year earlier. Sales and revenues rose to \$55.7 million, a 61 per cent increase over \$34.5 million in 1971.

Materials handling activities expanded in volume during 1972 in line with the high production experienced by the steel industry.

The group provides services at 24 iron and steel mill locations in the U.S. and Canada, four in South America, one in England, and one in Mexico.

Further overseas expansion, both through new contracts and acquisitions, is planned for 1973 and beyond. The world steel consumption rate is expected to continue to increase, making overseas expansion particularly attractive.

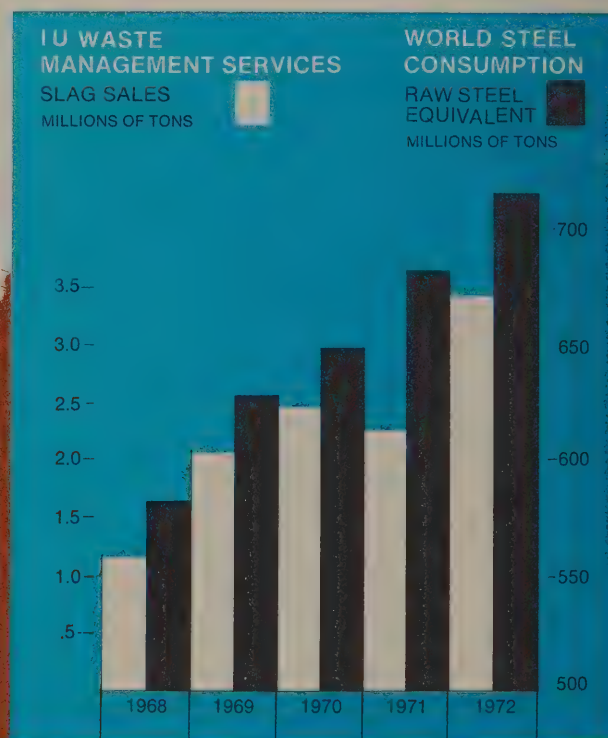
In 1972, the group formed IU Conversion Systems, Inc., to enlarge its environmental management activities. This subsidiary has a patented process known as Poz-o-Tec, developed through extensive research and development.

In the process, hydrated lime is combined with two major pollutants (fly ash and sulphur

WASTE MANAGEMENT SERVICES (Millions)		
	Sales & Revenues	Income Contribution
1972	\$55.7	\$7.5
1971	34.5	5.2
1970	28.6	4.6
1969	19.8	2.6

dioxide sludge) from coal-burning electric power plants to produce a sanitary non-polluting material. Poz-o-Tec is a commercial process which produces a structurally stable end product from sludge—the residue derived through lime scrubbing of pollutant-containing gases at power plants.

The mixture obtained through the process can be used as landfill, as a paving material, or as artificial aggregate. The potential volume of sludge



conversion is indicated by the fact that a sizeable utility plant can produce up to two million tons of this pollutant annually.

IU operations produce lime, limestone and related products, which are used extensively in the construction, chemical, and metals industries, and are key elements in the environmental control of air, water, and solid waste.

Water Management Services

In the water management area, General Waterworks Corporation had a slight increase in earnings contribution to \$6.7 million from \$6.5 million in 1971. These results were achieved in the face of a fractional decline in revenues to \$36.3 million in 1972, compared with \$36.8 million the preceding year.

Despite an aggressive rate action program, growth of the subsidiary's revenues was restrained by Phase II price controls.

WATER MANAGEMENT SERVICES (Millions)		
	Revenues	Income Contribution
1972	\$36.3	\$6.7
1971	36.8	6.5
1970	32.7	6.1
1969	28.6	5.7

The company's water services marketing strategy stresses the convenience, value, multiple use and low cost of pure water.

General Waterworks now serves 350,000 customers in 18 states

and the Province of New Brunswick, making it the second largest investor-owned water utility company in North America.

Land holdings of the company's subsidiaries encompass over 40,000 acres of woodlands and watershed. More than 65 billion gallons of pure water were "manufactured" and pumped through General Waterworks plants in 1972.

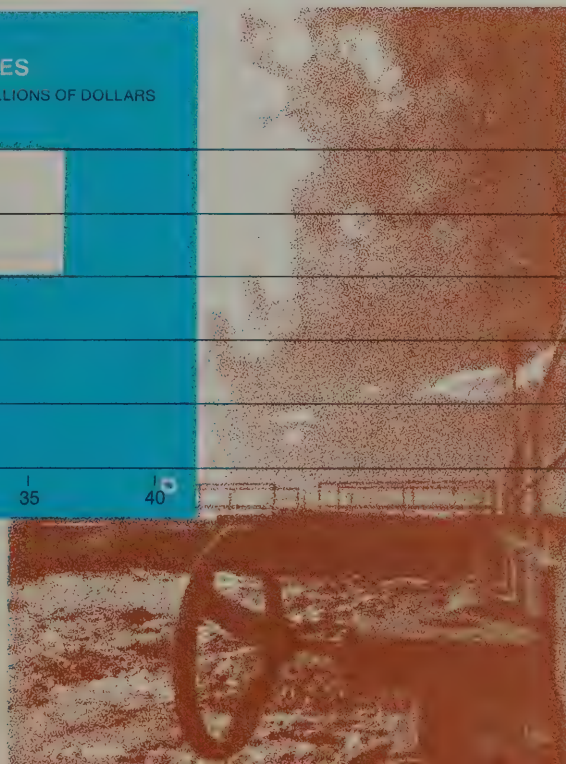
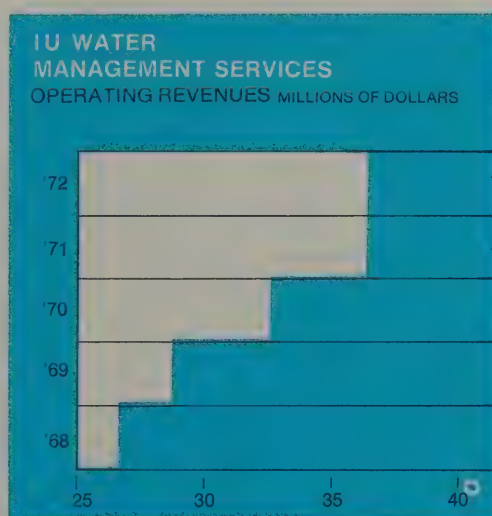
Since 1968, when it merged with IU, operating revenues of General Waterworks have increased 37 per cent and contribution to earnings has risen 34 per cent. The diversity of states in which General Waterworks has operating companies reduces its dependency on any single regulatory agency or political subdivision, thus protecting the benefits of steady growth, earnings stability and positive cash flow that IU obtains from these operations.

Land Management & Tourism

During 1972, Land Management and Tourism generated earnings contributions of \$4.8 million, up 34 per cent from \$3.6 million in 1971. Sales were \$154.0 million, a 4 per cent increase from \$148.3 million.

This market segment includes C. Brewer and Co., Ltd., IU's 54 per cent-owned Hawaiian-based subsidiary, and the cruise ship operations of Gotaas-Larsen. Because of the large minority interest, the Brewer earnings are included on an after-tax basis, while cruise ship operations are presented before taxes.

Brewer made further substantial progress during 1972 in its transition from being exclusively an integrated sugar-producing company to becoming an environmentally-oriented land management and tourism operation as well.



Brewer controls some 265,000 acres—130,000 owned outright and 135,000 leased—most of which is on the Big Island of Hawaii. Through 1982, the company plans capital expenditures of approximately \$100 million for development of non-agricultural land for leisure time and resort activities in a manner that preserves the environment and enhances residual values.

In September, Brewer opened Waiakea Resort Village at Hilo Lagoon, consisting of a 294-unit Polynesian-style hotel in a group of two- and three-story buildings and an international, multi-cultural marketplace. Located ten minutes from Hilo International Airport, the complex will serve as an introduction point to the Brewer regional resort system.

Entry to the vast Ka'u district, approximately 50 miles south of Waiakea Village, is through

LAND MANAGEMENT AND TOURISM (Millions)		
	Sales	Income Contribution
1972	\$154.0	\$4.8
1971	148.3	3.6
1970	134.0	2.8
1969	106.0	3.8

Volcanoes National Park, where Brewer's Volcano House Hotel and 18-hole Volcano Golf and Country Club are located near the active Kilauea Crater. Scheduled for opening in the summer of 1973 are a restaurant, golf course, and historical center at the black sand beach of Punaluu, 30 miles south of the park.

Additionally, ground will be broken in spring of 1973 in this area for Brewer's next major resort, Ninole Sea Village, a 200-room lagoon village hotel with about 100 condominiums.

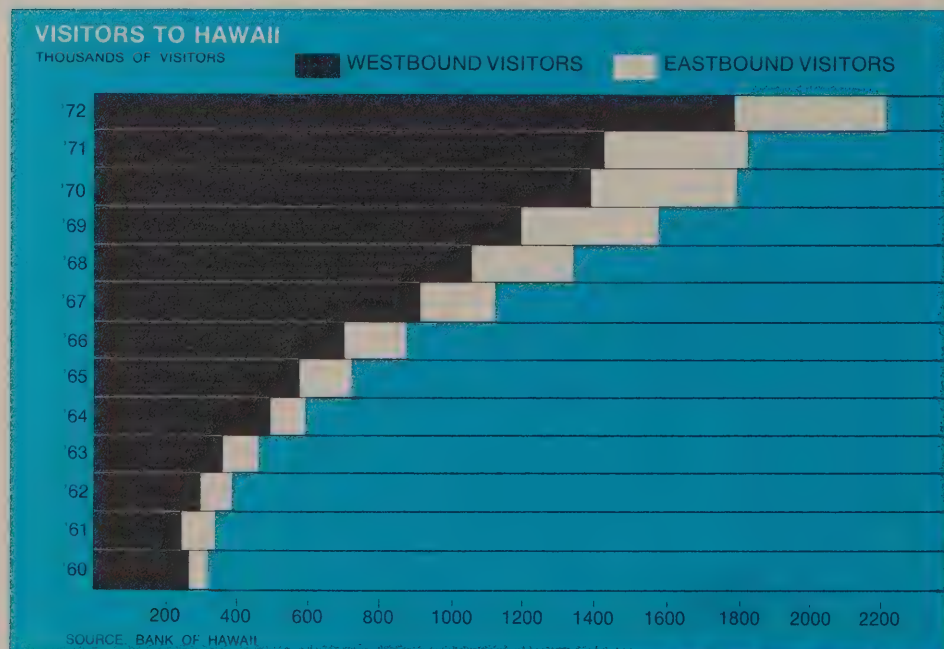
Brewer continues to maintain its role as a major sugar producer.

Advanced methods of growing, harvesting and milling this crop, along with increasing returns on macadamia nut cultivation, have improved profitability.

The company is managing partner in a firm that will farm 42,000 acres of irrigated land in Iran. Brewer also has management contracts for several other large Iranian projects.

IU expanded its participation in another aspect of tourism, cruise ships, in the past year, in anticipation of strong traffic growth through the 1970's.

Gotaas-Larsen owns Eastern Steamship Lines, which operates two ships from Miami to the Bahamas on three- and four-day cruises; and holds one-third ownership of Royal Caribbean Cruise Line, which operates three new sister ships (delivered from 1970 through 1972) on one- and two-week Caribbean cruises.





IU's five senior officers are (left to right): Dennis K. Yorath, Chairman of the Executive Committee; H. Irgens Larsen, Vice Chairman; John M. Seabrook, Chairman and President; J. G. Rubenstein, Executive Vice President; and John T. Jackson, Executive Vice President. All are directors of the company.

By anticipating marketing opportunities of the 1970s, IU today is positioned to take full advantage of its selective diversification in growing energy, transportation and distribution, and environmental markets.

IU's energy operations include the Gotaas-Larsen bulk shipping fleet, Canadian Utilities' gas and electric services, and the manufacturing units of the Energy Systems group. In 1972, these operations contributed 60 percent of pre-tax income; 32 percent of revenues.

IU's transportation and distribution operations include the transcontinental trucking network of Ryder Truck Lines

and Pacific Intermountain Express, an air freight forwarding business, and distribution services for food, paper and industrial products. In 1972, these subsidiaries accounted for 20 percent of pre-tax income; 47 percent of revenues.

IU's environmental operations include the Waste Management Services group; a land management and tourism business represented by C. Brewer and Co., Ltd., of Hawaii; cruise ships serving the Caribbean, and water management services. In 1972, these subsidiaries produced 20 percent of pre-tax income; 21 percent of revenues.



Ocean Shipping Through its subsidiary, Gotaas-Larsen, IU operates one of the larger independent bulk fleets in the world—54 ships totalling more than four million deadweight tons. The company is strongly positioned to profit from growing worldwide energy needs. In addition to supertankers (left), Gotaas-Larsen owns smaller tankers, refrigerated ships and bulk carriers and has on order liquefied natural gas (LNG) vessels and semi-submersible drilling rigs. The company also has interests in Norwegian firms involved in North Sea oil exploration.



Energy Systems Because of the energy crisis, the U.S. power generating industry plans to order by 1980 more than \$2.6 billion worth of the kinds of component products made by IU. IU subsidiaries, participating in the growing electric power and petroleum segments of this market, manufacture high quality valves, piping (above), pressure vessels, compressors and heat exchangers.



Electric & Gas Services The steady growth of IU's Canadian Utilities subsidiary parallels the healthy petroleum-based prosperity of the Province of Alberta, where the economy is expanding at twice the rate of Canada as a whole. CU provides natural gas to 1.25 million residents in 251 communities and electric power (left) to 275,000 people in 364 localities.

Transportation/Distribution Markets



Transportation Services A key element in IU's plan for development of a worldwide transportation services network is air freight forwarding. The company's Pacific Intermountain Express subsidiary (above) has such an operation, which is particularly active in Europe. Acquisition of Airborne Freight Corp., the second largest air freight forwarder, would add more than 70 stations in the U.S. and the Far East.



Trucking The major portion of IU's transportation services is the trucking network comprised of Ryder Truck Lines and Pacific Intermountain Express (left). This system, which serves virtually every major market in the U.S., is the nation's third largest with more than 12,400 pieces of equipment and 285 terminals. To position itself for a larger share of rising industry revenues, the company has committed a substantial investment to expanded facilities and improved customer services.



Distribution Services IU's distribution activities cover 15 southeastern and midwestern states and include over 25,000 stock items ranging from diverse paper products for industry to institutional foods for schools (left), hotels and hospitals. The nucleus of an additional system to distribute industrial supplies and materials was formed early in 1973 as part of a plan to establish modular capabilities on a broad geographic basis.



Water Management Services

IU's General Waterworks subsidiary supplies pure, clear water to 350,000 people in 18 states and one Canadian province, making it the second largest investor-owned water utility in North America. Through its operations, enough pure water is "manufactured" daily (right) to fill 2.5 billion glasses or 4,000 average-sized swimming pools.



Waste Management Services

At 30 steel mills in six countries, IU operations recover and recycle valuable iron and steel scrap from by-product slag waste (left). IU has more than a decade of experience in solving problems of waste control and is now focusing research efforts (right) on anti-pollution techniques. The company's patented Poz-o-Tec process converts two pollutants, sludge and fly ash, into structurally stable landfill and artificial paving materials.





Land Management and Tourism IU's subsidiary, C. Brewer and Co., Ltd., has opened a 294-room Polynesian resort, Waiakea Resort Village (above), at Hilo, Hawaii. Work is progressing on Ninole Sea Village, another part of the expanding land development program. Brewer, which controls 265,000 acres on the Big Island, also produces about 20 per cent of the Hawaiian sugar crop and is a major grower of macadamia nuts. Another segment of IU's tourism business includes Caribbean cruise ships (left), which Gotaas-Larsen owns in whole or in part.

Sales and Revenues

Worldwide sales and revenues established a new corporate record. In 1972, sales and revenues totalled \$1.19 billion, an increase of 12 per cent over \$1.07 billion the previous year.

Net Income

Income, before an extraordinary credit of \$684,000, amounted to \$58.7 million in 1972, an increase of 17 per cent over \$50.1 million in 1971.

This was the fourth consecutive record year for net income and earnings per share. On a per share basis, after recognition of all common stock equivalents, earnings for 1972 before the extraordinary credit amounted to \$1.88 compared with \$1.64 in 1971, an increase of 15 per cent. Net income, including the extraordinary credit, was equal to \$1.90 per share.

Capital Expenditures

Capital expenditures for new equipment and facilities amounted to \$183.1 million, an increase of 36 per cent over \$134.4 million in 1971.

Depreciation in 1972 amounted to \$58.9 million, an increase of 8 per cent over \$54.6 million in the previous year.

IU's capital expenditures in 1973 are planned to increase to approximately \$187 million from \$183 million in 1972. Major outlays are scheduled as follows: Utilities, \$63 million;

Transportation Services \$33 million; Industrials, \$32 million; Land Management and Tourism, \$31 million; and Ocean Shipping, \$28 million. In accordance with IU's policy, these expenditures will be largely financed at the operating company level by retained cash flow and new financing.

New Financing

IU continued its practice of funding capital requirements at the operating company level.

Gotaas-Larsen Shipping Corp. funded a significant portion of its 1972 requirement through \$25 million in shipping bonds through a Eurobond offering marketed by International Utilities Overseas Capital Corporation. The issue was guaranteed by Gotaas-Larsen. It was the first offering of any IU security in which Japanese investment houses formed part of the underwriting group.

Canadian Utilities, Ltd., issued \$30 million in debentures, the first public offering of securities by the recently restructured 86 per cent-owned subsidiary of IU. Canadian Utilities also entered the commercial paper market for the first time.

At the operating level, IU subsidiaries incurred long-term debt of \$182 million while repaying \$97 million for a net increase of \$85 million. Total long-term debt at year-end was \$627 million compared with \$544 million in 1971. Unused credit lines and revolving credit agreements

totalled over \$200 million at year-end.

Shareholders' Equity

Shareholders' equity increased to \$430 million as of December 31, 1972. Equity per common share and common equivalent share increased from \$11.84 in 1971 to \$13.09 in 1972.

IU split its common stock two-for-one in September 1972 and, in addition, both of its majority-owned affiliates, Canadian Utilities, Ltd., and C. Brewer and Co., Ltd., split their common stock in 1972.

Dividends

With the September 1 payment, the common dividend was increased from 70 cents to an annual rate of 75 cents a share, making 1972 the 28th consecutive year in which IU paid a higher dividend to shareholders. This was the 48th year in which the company paid dividends.

In 1972, Canadian Utilities increased its common dividend, and C. Brewer resumed cash dividends.

The IU and C. Brewer dividend increases were within the guidelines suggested by the Federal government's Economic Stabilization Program.

Currency Fluctuations

The devaluation of the United States dollar in February 1973 will not have a material effect on 1973 earnings.

Sources of Sales & Revenues and Income

Contributions by major operating groups:	(in thousands)			
	Sales & Revenues		Income	
	1972	1971	1972	1971
Transportation Services	\$ 306,001	\$ 272,577	\$12,742	\$14,008
Ocean Shipping	134,887	125,680	33,149	29,143
Utilities	150,653	137,854	25,109	25,096
Industrials	425,220	366,548	19,355	11,740
Land Management & Tourism	143,021	138,722	3,575 ⁽¹⁾	3,148 ⁽¹⁾
Total major operating groups	1,159,782	1,041,381	93,930	83,135
Other ⁽²⁾	32,349	24,573	(2,647)	2,280
Corporate expenses, including interest	—	—	(14,613)	(13,925)
Income taxes	—	—	(17,664) ⁽³⁾	(21,033) ⁽³⁾
Foreign exchange adjustments	—	—	(307)	(406)
Total sales and revenues	\$1,192,131	\$1,065,954		
Income before extraordinary item			58,699	50,051
Extraordinary item			684	—
Net income			59,383	50,051
Dividend requirement on preferred stock			2,231	2,933
Net income applicable to common and common equivalent shares			\$57,152	\$47,118

(1) After deducting income taxes and 46% minority interest.

(2) Includes non-strategic holdings and companies sold.

(3) Consolidated income taxes, 1972—\$22,316; 1971—\$25,454.

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and all subsidiaries, except an insurance underwriting subsidiary, certain non-United States subsidiaries, and subsidiaries in the process of liquidation or sale. Investments in unconsolidated majority-owned subsidiaries and investments in companies and joint ventures owned more than 20% are accounted for on the equity basis and the appropriate portion of the earnings of such companies is included in consolidated income. A subsidiary's investment in the capital stock of cooperatives is carried at cost.

Current assets and liabilities of subsidiaries located outside the United States are translated into United States dollar equivalents at appropriate year-end exchange rates and noncurrent assets and liabilities are translated at historical rates. Income and expense accounts are translated at average exchange rates, except that depreciation is translated at historical rates. Translation losses and gains were not material and have been reflected in net income.

Revenue Recognition

Ocean transportation revenue is recognized in operations ratably over the periods of time charter agreements and over the life of the voyage on most other agreements.

Land Development

A subsidiary of the Corporation has adopted the installment method of reporting income from term sales of raw land until the amount of principal paid reaches from 20 to 30 per cent of the sale price, at which time the balance of the sale is recognized.

Certain overhead costs required to bring land and improvements to a salable condition have been capitalized and will be amortized to projects and land sales contemplated over a period of 10 years or less.

Inventories

Inventories generally are stated at the lower of cost or market. Due to diversified operations, several bases of determining cost are used.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation is provided principally on the straight-line basis, except for certain subsidiaries which use the declining-balance method, over the estimated useful lives of the related assets. Upon sale or retirement of non-utility properties, costs and related depreciation are eliminated and gains or losses are recorded. Upon sale or retirement of depreciable utility properties, costs are transferred to accumulated depreciation and no gain or loss is recognized.

Interest and other overhead costs during construction of utility plant and ocean vessels are added to cost.

Operating Rights and Other Intangibles

Operating rights and other intangibles consist of: (a) cost to subsidiary companies of operating rights; (b) cost of communications services organizations, subscriptions and other intangibles; and (c) net excess of cost of investments in subsidiaries over underlying net assets.

Intangibles having a limited life are amortized over their useful lives. The excess of the cost of investments in subsidiaries over net assets of companies

acquired is not being amortized, except that portion relating to companies acquired after October 31, 1970, since there is no present indication that such excess has a determinable life or existence.

Pension Plans

The Corporation and certain of its subsidiaries have various insured or trustee pension plans, some of which require employee contributions, and which generally provide for normal retirement at age 65. The unfunded past service liabilities under such plans are amortized over periods not exceeding 40 years. Generally, it is the Corporation's policy to fund pension costs accrued.

Income Taxes

Provision is made for deferred income taxes and future income tax benefits applicable to timing differences between book and taxable income, except that certain utility subsidiaries are claiming depreciation and certain other expenses for income tax purposes in excess of the amounts recorded in the accounts without providing for the related income tax deferral. In setting rates, these utilities recover only income taxes payable currently.

Certain subsidiaries operate in countries where their income is substantially free of taxation or is effectively taxed at rates lower than in the United States. Income taxes have been provided on that portion of the earnings of such subsidiaries considered not to be continuously reinvested outside the United States.

The investment credit is accounted for by the flow-through method, except that utility subsidiaries allocate the credit over the depreciable lives of the related assets.

Statements of Consolidated Income

Years ended December 31, 1972 and 1971

(In thousands)

	<u>1972</u>	<u>1971*</u>
SALES, REVENUES AND OTHER INCOME, including interest and dividends, 1972— \$8,880; 1971—\$10,135	<u>\$1,192,131</u>	<u>\$1,065,954</u>
COSTS AND EXPENSES:		
Cost of products sold and other operating costs and expenses, excluding depreciation and amortization	849,006	748,985
Selling, general and administrative expenses, excluding depreciation and amortization	155,309	139,799
Depreciation and amortization (note 6)	58,851	54,599
Interest and debt expense	39,233	39,260
Income taxes, including deferred taxes (recovery), 1972—\$1,852; 1971—(\$726) (note 9)	22,316	25,454
Minority interests	8,717	7,806
	<u>1,133,432</u>	<u>1,015,903</u>
INCOME BEFORE EXTRAORDINARY ITEM	58,699	50,051
EXTRAORDINARY ITEM (note 5)	684	—
NET INCOME	59,383	50,051
DIVIDEND REQUIREMENT ON PREFERRED STOCK	2,231	2,933
NET INCOME APPLICABLE TO COMMON AND COMMON EQUIVALENT SHARES ..	<u>\$ 57,152</u>	<u>\$ 47,118</u>
EARNINGS PER SHARE (note 11):		
PER AVERAGE COMMON AND COMMON EQUIVALENT SHARE:		
Income before extraordinary item	\$ 1.88	\$ 1.64
Extraordinary item02	—
Net income	<u>\$ 1.90</u>	<u>\$ 1.64</u>
ASSUMING FULL DILUTION:		
Income before extraordinary item	\$ 1.65	\$ 1.41
Extraordinary item02	—
Net income	<u>\$ 1.67</u>	<u>\$ 1.41</u>

*Certain items have been reclassified to conform to current classification.

See accompanying summary of significant accounting policies and notes to financial statements.

Consolidated Balance Sheets

December 31, 1972 and 1971

(In thousands)

	<u>1972</u>	<u>1971*</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 39,809	\$ 49,379
Accounts receivable, less allowance, 1972-\$4,428; 1971-\$2,759	207,774	186,636
Inventories (note 2)	107,773	102,055
Prepaid expenses and other current assets	25,881	22,636
Total current assets	<u>381,237</u>	<u>360,706</u>
RESTRICTED CASH DEPOSITS, NONCURRENT ACCOUNTS AND NOTES		
RECEIVABLE	49,514	48,162
LAND HELD FOR RESALE (note 3)	25,308	24,854
UNCONSOLIDATED SUBSIDIARIES, JOINT VENTURES AND		
COOPERATIVES (note 4)	62,784	51,770
INVESTMENTS (note 5)	25,688	38,327
PROPERTY, PLANT AND EQUIPMENT (note 6)	1,314,252	1,197,166
Less accumulated depreciation and amortization	385,078	363,656
Net property, plant and equipment	929,174	833,510
DEFERRED CHARGES, less amortization	19,542	17,297
OPERATING RIGHTS AND OTHER INTANGIBLES, net	35,072	32,160
Total assets	<u>\$1,528,319</u>	<u>\$1,406,786</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	\$ 85,962	\$ 87,165
Accounts payable and accrued liabilities	103,498	98,571
Income taxes (note 9)	2,226	18,518
Long-term debt—current maturities (note 7)	38,541	44,162
Other current liabilities	70,259	58,793
Total current liabilities	<u>300,486</u>	<u>307,209</u>
LONG-TERM DEBT (note 7)	588,221	500,137
OTHER LIABILITIES	87,350	68,852
DEFERRED INCOME TAXES (note 9)	24,892	18,756
MINORITY INTEREST IN SUBSIDIARIES	97,410	115,137
SHAREHOLDERS' EQUITY (note 10):		
Series preferred stock	30,868	44,446
Series preference stock	48,107	59,162
Common stock	31,775	27,890
Additional paid-in capital	97,815	71,969
Retained earnings (note 7)	248,590	208,971
	457,155	412,438
Less shares in treasury, at cost	27,195	15,743
Total shareholders' equity	429,960	396,695
Total liabilities and shareholders' equity	<u>\$1,528,319</u>	<u>\$1,406,786</u>

*Certain items have been reclassified to conform to current classification.

See accompanying summary of significant accounting policies and notes to financial statements.

Statements of Consolidated Additional Paid-In Capital

Years ended December 31, 1972 and 1971

(In thousands)

	1972	1971
AMOUNT AT BEGINNING OF YEAR	\$ 71,969	\$ 52,000
ADD (DEDUCT):		
Capital in excess of par or stated value of shares issued upon:		
Acquisition of subsidiaries	9,678	—
Conversion of bonds of a subsidiary into common	1,358	2,585
Conversion of preferred stock into common and Special Stock, Series A	7,270	3,419
Conversion of Special Stock, Series A into common	9,600	10,090
Exercise of employees' stock options	1,622	3,826
Excess of market value at date of exchange of Continental Telephone Corporation stock plus other consideration over aggregate par value of subsidiary's preferred stock (note 5)	(2,971)	—
Other adjustments, net	(711)	49
AMOUNT AT END OF YEAR	<u>\$ 97,815</u>	<u>\$ 71,969</u>

Statements of Consolidated Retained Earnings

Years ended December 31, 1972 and 1971

(In thousands)

	1972	1971
AMOUNT AT BEGINNING OF YEAR	\$208,971	\$175,346
Net income	59,383	50,051
	268,354	225,397
DEDUCT (ADD):		
Dividends:		
Preferred	2,569	832
Common (1972—\$.725; 1971—\$.70 per share)	17,195	14,796
Pooled subsidiaries prior to acquisition	—	1,076
Other adjustments, net	—	(278)
	19,764	16,426
AMOUNT AT END OF YEAR	<u>\$248,590</u>	<u>\$208,971</u>

See accompanying summary of significant accounting policies and notes to financial statements.

Statements of Changes in Consolidated Financial Position

Years ended December 31, 1972 and 1971

(In thousands)

	1972	1971*
SOURCES OF WORKING CAPITAL:		
Income before extraordinary item	\$ 58,699	\$ 50,051
Add net charges not requiring funds, principally depreciation and amortization	58,416	72,417
Provided from operations	117,115	122,468
Extraordinary item of \$684, less nonfund amounts of \$3,369	(2,685)	—
Disposition of property, plant and equipment	33,655	15,510
Sales of other noncurrent assets	59,611	56,173
Issuance of long-term debt, less expenses of issue	182,146	89,289
Issuance of capital stock, less expenses of issue	23,643	11,432
Other	6,595	1,157
Total sources	<u>420,080</u>	<u>296,029</u>
USES OF WORKING CAPITAL:		
Purchase of property, plant and equipment	183,106	134,430
Acquisition of other noncurrent assets	42,938	40,166
Reduction of long-term debt	97,389	98,719
Redemption and conversion of preferred stock	13,607	4,439
Purchase of treasury stock	14,955	5,269
Dividends on preferred and common shares	19,764	16,704
Par value of preferred stock retired	21,067	—
Total uses	<u>392,826</u>	<u>299,727</u>
INCREASE (DECREASE) in working capital	<u>\$ 27,254</u>	<u>\$ (3,698)</u>
CHANGES IN WORKING CAPITAL:		
Cash	\$ (9,570)	\$ 7,375
Accounts receivable, less allowance	21,138	26,224
Inventories	5,718	2,376
Prepaid expenses and other current assets	3,245	2,397
Total	<u>20,531</u>	<u>38,372</u>
Notes payable	(1,203)	28,713
Accounts payable and accrued liabilities	4,927	25,365
Income taxes	(16,292)	(3,663)
Long-term debt—current maturities	(5,621)	(7,336)
Other current liabilities	11,466	(1,009)
Total	<u>(6,723)</u>	<u>42,070</u>
INCREASE (DECREASE) in working capital	<u>\$ 27,254</u>	<u>\$ (3,698)</u>

*Certain items have been reclassified to conform to current classification.

See accompanying summary of significant accounting policies and notes to financial statements.

Notes to Financial Statements

Note 1 Consolidation

During the year ended December 31, 1972, the Corporation acquired, in purchase transactions, four manufacturing companies for 797,858 shares of common stock and cash, amounting to an aggregate consideration of \$35,573,000. Under certain circumstances, an additional 150,000 shares may be issued in connection with these acquisitions. The operations of these companies are included in the financial statements from dates of acquisition. Pro forma results of operations reflecting the operations of the acquired companies as though they had been consolidated on January 1, 1971 are as follows:

	1972	1971
Sales and revenues	\$1,215,357,000	\$1,116,544,000
Income before extraordinary item..	\$ 58,776,000	\$ 52,013,000
Net income	\$ 59,460,000	\$ 52,013,000
Primary earnings per share	1.89	1.66

During 1971 the Corporation acquired Biggers Brothers, Incorporated (Biggers) in exchange for 312,500 shares of common stock and also acquired 86.89% of the outstanding stock of Pacific Intermountain Express Co. (P.I.E.) in exchange for 1,689,699 shares of \$1.25 Convertible Preferred Stock; the remainder of the outstanding stock of P.I.E. having been previously acquired. Pooling-of-interests accounting treatment was applied

to the acquisition of Biggers and to that portion of the acquisition of P.I.E. which was effected through an exchange of shares; purchase accounting treatment was applied to that portion of the acquisition of P.I.E. involving cash transactions. The contribution to sales and revenues and net income of these acquisitions in 1971 was \$193,819,000 and \$5,114,000, respectively.

During the two years ended December 31, 1972, the Corporation disposed of, or agreed to dispose of, its interests in certain sugar-related operations, six manufacturing companies, and certain smaller companies. The contribution to sales and revenues and net income of such dispositions for the two years ended December 31, 1972 was as follows:

	1972	1971
Sales and revenues	\$7,798,000	\$72,236,000
Net (loss)	(\$ 776,000)	(\$ 1,120,000)

The net loss from operations of discontinued businesses has been included in other income.

The Corporation's principal consolidated non-United States operations relate to its Canadian utility operations and its ocean shipping operations, the latter being carried on in a number of countries. A summary of significant items with respect to such operations for the years 1972 and 1971 follows:

	1972				1971			
	Net Current Assets	Total Assets	Sales and Revenues	Net Income	Net Current Assets	Total Assets	Sales and Revenues	Net Income
Canadian	(\$14,267,000)	\$359,757,000	\$140,647,000	\$13,212,000	(\$20,361,000)	\$323,642,000	\$120,895,000	\$13,112,000
Other non-U.S.	(11,493,000)	265,019,000	145,531,000	28,999,000	(20,425,000)	224,501,000	136,976,000	24,822,000
Total non-U.S.	<u>(\$25,760,000)</u>	<u>\$624,776,000</u>	<u>\$286,178,000</u>	<u>\$42,211,000</u>	<u>(\$40,786,000)</u>	<u>\$548,143,000</u>	<u>\$257,871,000</u>	<u>\$37,934,000</u>

Note 2 Inventories

Inventories at December 31, 1972 and 1971 are summarized as follows:

	1972	1971
Utility	\$ 6,674,000	\$ 6,688,000
Industrial:		
Finished products	32,433,000	25,551,000
Work in process	27,886,000	24,263,000
Raw materials and supplies	20,178,000	20,226,000
	<u>80,497,000</u>	<u>70,040,000</u>
Merchandise and commodities ...	15,978,000	21,063,000
Other	4,624,000	4,264,000
	<u>\$107,773,000</u>	<u>\$102,055,000</u>

Industrial and merchandise and commodities inventories include items valued on a last-in, first-out basis with an aggregate cost of \$3,560,000 and \$13,030,000 at December 31, 1972 and 1971, respectively, which is approximately \$1,900,000 and \$2,689,000, respectively, less than the cost of such inventories valued on a first-in, first-out basis.

Note 3 Land Held for Resale

Land held for resale is carried at cost, including the following amounts capitalized during the development period:

	1972	1971
Interest	\$1,762,000	\$1,440,000
Real estate taxes	309,000	245,000
Other carrying costs	577,000	347,000
	<u>\$2,648,000</u>	<u>\$2,032,000</u>

Note 4 Unconsolidated Subsidiaries, Joint Ventures and Cooperatives

Dividends received from unconsolidated subsidiaries, joint ventures, and cooperatives were \$1,537,000 and \$632,000 in 1972 and 1971, respectively.

Note 5 Investments

Investments at December 31, 1972 and 1971 consist of the following:

	Carrying Value	
	1972	1971
Chemical Leaman Tank Lines—common stock, at cost (market value 1972—\$4,830,000; 1971—\$4,250,000)	\$ 5,500,000	\$ 5,500,000
Bonds and debentures, at cost (market value 1972—\$6,420,000; 1971—\$9,450,000)	6,346,000	11,813,000
Petroleum properties, at cost less amortization	10,354,000	10,667,000
Other investments, including \$3,893,000 Continental Telephone Corporation common stock in 1971	6,880,000	15,847,000
Provision for possible loss	(3,392,000)	(5,500,000)
	<u>\$25,688,000</u>	<u>\$38,327,000</u>

During 1972 the Company sold a portion of its investment in common stock of Continental Telephone Corporation and exchanged the remainder of its investment for all the outstanding shares of \$4.40 Voting Preferred Stock of GWC Incorporated, a subsidiary, and disposed of certain other miscellaneous investments resulting in a gain of approximately \$9,645,000, net of tax of \$9,705,000, after application of reserves provided in prior years. A provision of \$8,961,000, net of related tax benefit of \$3,680,000, was made during 1972 for anticipated losses on disposition of certain subsidiaries, non-current assets, and other investments resulting in a net gain of \$684,000. This gain has been reflected as an

extraordinary item in 1972 as recurring material gains or losses from such sources are not anticipated in the future.

During 1971 the Company disposed of its investments in capital stock of Western Union International, Inc., Frank B. Hall and Co. Inc., Penn Central Company, and certain other properties, resulting in a gain of approximately \$6,000,000, net of tax of \$6,971,000, after application of reserves provided in prior years. A provision of \$10,200,000 was made during 1971 for anticipated losses on unconsolidated subsidiaries and investments which, after provision for related tax benefit, was approximately equal to the net realized gain from disposition.

Note 6 Property, Plant and Equipment

Property, plant and equipment is summarized as follows:

Type of Operation	1972	1971
Shipping	\$ 225,813,000	\$ 206,027,000
Trucking	147,106,000	138,718,000
Utility	612,071,000	566,959,000
Industrial	186,569,000	158,993,000
Agriculture, land development, etc.	119,008,000	104,521,000
Office building	14,958,000	14,271,000
Other	8,727,000	7,677,000
	<u>1,314,252,000</u>	<u>1,197,166,000</u>
Less accumulated depreciation and amortization	<u>385,078,000</u>	<u>363,656,000</u>
	<u>\$ 929,174,000</u>	<u>\$ 833,510,000</u>

Effective January 1, 1972, a subsidiary reduced the estimated useful lives of four ocean vessels with average remaining lives of 9-13 years to 5 years. Effective January 1, 1971, the same subsidiary changed its method of computing depreciation on a substantial portion of its ocean vessels from the straight-line basis to the double-declining basis. As a result of these changes, depreciation expense for 1972 and 1971 was increased, and net income was decreased, by \$1,691,000 or 6 cents a share and \$5,644,000 or 20 cents a share, respectively.

During 1972 and 1971, interest and other overhead costs related to construction of utility plant and ocean vessels were capitalized in the amounts of \$13,810,000 and \$8,637,000, respectively.

Note 7 Long-Term Debt

Long-term debt at December 31, 1972 and 1971 is summarized as follows:

	<u>1972</u>	<u>1971</u>
FIRST MORTGAGE BONDS:		
Due 1972 to 1997; 3½ % to 9¾ %	\$136,486,000	\$142,272,000
OTHER:		
SECURED:		
Due 1972 to 1997; 3½ % to 9¾ %	153,374,000	141,921,000
UNSECURED:		
Due 1972 to 1997; 5 % to 10½ %	<u>336,902,000</u>	<u>260,106,000</u>
	626,762,000	544,299,000
Less current maturities	<u>38,541,000</u>	<u>44,162,000</u>
	<u>\$588,221,000</u>	<u>\$500,137,000</u>

The long-term debt is payable by subsidiaries. The mortgage bonds and secured debt are subject to various indentures and agreements requiring, among other things,

either the mortgaging of properties, the pledging of investments in subsidiaries or, in certain instances, a combination of both. Sinking fund requirements and instalments of long-term debt maturing in the years 1974, 1975, 1976 and 1977 amount to approximately \$73,611,000, \$64,915,000, \$71,938,000 and \$56,169,000, respectively, after deducting bonds which have been repurchased and excluding requirements which may be satisfied by certification of property additions.

The bond indentures and note agreements executed by the Corporation and certain subsidiaries place limitations on the Corporation and its subsidiaries, including restrictions on the payment of dividends. Of the consolidated retained earnings at December 31, 1972 and 1971, approximately \$124,000,000 and \$98,000,000, respectively, were free from such restrictions.

Note 8 Pension Plans

The total unfunded past service liabilities under pension plans amount to approximately \$42,700,000 at December 31, 1972. Unfunded vested benefits at December

31, 1972 are estimated to be \$9,700,000. Total charges against income during 1972 and 1971 were \$8,100,000 and \$9,300,000, respectively.

Note 9 Income Taxes

The Company's effective income tax rate was less than the current United States income tax rate of 48% primarily because \$22,800,000 and \$17,500,000, respectively, in 1972 and 1971 of earnings from non-United States subsidiaries were substantially free of taxation and, as explained in the summary of significant accounting policies, \$6,500,000 and \$3,200,000, respectively, of deferred taxes in 1972 and 1971 relating to timing differences between book and taxable income of utility operations were not required to be provided. At December 31, 1972, the Company had not provided income taxes on \$52,000,000 of undistributed earnings of non-United States subsidiaries since such earnings are being continuously reinvested outside the United States.

The U.S. Internal Revenue Service in 1965 issued an administrative ruling which has the effect of denying losses, incurred in Puerto Rico in prior years, which have been included in the consolidated tax return of the

Corporation's 54%-owned subsidiary, C. Brewer and Company, Limited. In addition, the subsidiary understands the Internal Revenue Service now proposes not to recognize for tax purposes the division of Puerto Rico business into a land company and sugar operating company effected in 1965. In accordance with a Revenue Agent's report dated March 24, 1971 the net income taxes in question related to these issues for the years 1961-1972 inclusive approximate \$13,300,000. In the opinion of Brewer's management, based upon the advice of their counsel and tax consultants, the ruling relied upon by the Internal Revenue Service is erroneous and any subsequent action of the Internal Revenue Service in not recognizing the 1965 transaction would also be erroneous. On June 22, 1971, the U.S. Tax Court decided a case dealing with the same issue involving another taxpayer. In this case, the Tax Court ruled that the administrative ruling issued by the Internal Revenue Service was invalid. The subsidiary intends to contest any tax assessment on these issues.

Note 10 Capital Stock

The charter of the Corporation was amended effective September 29, 1972 increasing the number of authorized common shares from 30,000,000 to 60,000,000 decreasing the par value of the common shares from

\$2.50 to \$1.25 per share and effecting a two-for-one stock split of the common shares then outstanding.

The authorized and issued capital stock of the Corporation at December 31, 1972 and 1971, after giving effect to the stock split, is summarized below:

	Issued at December 31, 1972		Issued at December 31, 1971	
	Shares	Stated or par value	Shares	Stated or par value
Series preferred stock, without par value:				
Authorized: 1972—4,814,708 shares; 1971—4,868,071 shares; reserved 2,800 and 12,743 shares, respectively, classified as \$1.25 convertible series (for exercise of stock options)				
Issued:				
\$5.00 series (in treasury 1972—3,760 shares; 1971—3,295 shares)	93,302	\$ 9,563,000	93,302	\$ 9,563,000
\$6.00 series A	—	—	25,200	2,520,000
\$6.00 series B (in treasury 1971—1,980 shares)	—	—	28,163	2,816,000
\$1.25 convertible series (in treasury 1972—252,532 shares; 1971—254,932 shares)	1,405,897	21,305,000	1,949,631	29,547,000
	<u>1,499,199</u>	<u>\$30,868,000</u>	<u>2,096,296</u>	<u>\$44,446,000</u>
Series preference stock, without par value:				
Authorized: 1972—7,055,543 shares; 1971—7,641,187 shares; reserved 494 shares and 8,862 shares, respectively, classified as Special Stock, Series A (for exercise of stock options)				
Issued—Special Stock, Series A (in treasury at both dates— 121,371 shares)	<u>2,485,088</u>	<u>\$48,107,000</u>	<u>3,062,929</u>	<u>\$59,162,000</u>
Common stock, par value \$1.25 per share:				
Authorized—60,000,000 shares; reserved for conversion of preferred stock, 2,253,915 shares and 3,139,798 shares, respectively; for conversion of Special Stock, Series A, 10,892,317 shares and 13,461,202 shares, respectively; for conversion of bonds of a subsidiary, 237,812 shares and 329,936 shares, respectively; for exercise of warrants attached to bonds of a subsidiary, 180,000 shares; for conversion of units of contingent interest, 150,000 shares in 1972; and for stock option and stock purchase plans, 1,535,798 shares and 1,646,004 shares, respectively.				
Issued (in treasury 1972—971,638 shares; 1971—463,188 shares)	<u>25,419,995</u>	<u>\$31,775,000</u>	<u>22,312,206</u>	<u>\$27,890,000</u>

The holders of preferred stock are entitled to cumulative dividends payable at the respective rates set out in the titles of the various series, and have voting rights. The holders of the \$5.00 Preferred Stock, upon liquidation or redemption, are entitled to receive the stated value plus accrued and unpaid dividends. The \$1.25 Convertible Preferred Stock is redeemable any time after November 30, 1976 at \$25 per share. At December 31, 1972, each share of the \$1.25 Convertible Preferred Stock was convertible at any time into 1.6 common shares.

Holders of Special Stock, Series A are not entitled to receive any dividends; they have voting rights and on

liquidation are entitled to receive \$15 per share subject to the liquidation rights of the preferred shareholders. The Special Stock, Series A is convertible into 2.4334 and 2.3398 shares of common stock through December 31, 1973 and 1972, respectively, after which the conversion rates increase to a maximum of 4.3822 common shares on January 1, 1988. It is redeemable after December 31, 1977 at \$70 per share.

Changes in capital stock during the years ended December 31, 1972 and 1971 are summarized as follows:

	1972			1971		
	Preferred	Special Stock, Series A	Common	Preferred	Special Stock, Series A	Common
Shares issued at beginning of year	2,096,296	3,062,929	22,312,206	2,187,418	3,644,744	20,234,040
Conversion of preferred stock	(553,677)	—	885,866	(111,606)	835	200,248
Redemption or retirement of preferred stock	(53,363)	—	—	(18,273)	—	—
Conversion of Special Stock, Series A	—	(585,644)	1,369,907	—	(611,702)	1,375,820
Acquisition of subsidiary	—	—	649,720	—	—	—
Exercised under stock option and purchase plans	9,943	7,803	110,206	38,757	29,052	326,832
Conversion of bonds of a subsidiary	—	—	92,090	—	—	175,266
Shares issued at end of year	<u>1,499,199</u>	<u>2,485,088</u>	<u>25,419,995</u>	<u>2,096,296</u>	<u>3,062,929</u>	<u>22,312,206</u>

Changes in treasury stock during the years ended December 31, 1972 and 1971 are summarized as follows:

	1972			1971		
	Preferred	Special Stock, Series A	Common	Preferred	Special Stock, Series A	Common
Shares held at beginning of year	260,207	121,371	463,188	255,132	101,171	268,338
Acquired	465	—	656,588	5,075	20,200	194,850
Reissued	—	—	(148,138)	—	—	—
Sold	(2,400)	—	—	—	—	—
Cancelled	(1,980)	—	—	—	—	—
Shares held at end of year	<u>256,292</u>	<u>121,371</u>	<u>971,638</u>	<u>260,207</u>	<u>121,371</u>	<u>463,188</u>

Options to certain officers and employees of the Corporation and its subsidiaries were outstanding at December 31, 1972 and 1971. Options granted under the Employees Stock Option Plans are exercisable in

varying amounts over periods from five to seven years from the date of grant, at prices from 85% to 100% of the fair market value of the stock at the date of grant.

The changes in the outstanding options during 1972 and 1971 were as follows:

	1972			1971		
	\$1.25 Convertible Preferred Stock	Special Stock, Series A	Common	\$1.25 Convertible Preferred Stock	Special Stock, Series A	Common
Shares under option at beginning of year	12,743	8,862	397,580	51,500	38,117	482,236
Granted	—	—	196,500	—	—	41,000
Exercised	(9,943)	(7,803)	(99,846)	(38,757)	(29,052)	(97,076)
Cancelled or expired	—	(565)	(29,882)	—	(203)	(40,800)
Assumed from subsidiary acquired	—	—	—	—	—	12,220
Shares under option at end of year	<u>2,800</u>	<u>494</u>	<u>464,352</u>	<u>12,743</u>	<u>8,862</u>	<u>397,580</u>
Average option price	<u>\$14.65</u>	<u>\$36.53</u>	<u>\$18.93</u>	<u>\$14.94</u>	<u>\$33.73</u>	<u>\$16.54</u>

At December 31, 1972 and 1971 there were 311,562 and 478,180 shares, respectively, of common stock reserved for future grants.

Under the Employee Stock Purchase Plan 759,884 shares of common stock may be sold to eligible employees. Subscriptions for 361,000 shares were received.

At December 31, 1972 and 1971 a wholly-owned subsidiary had outstanding \$3,805,000 and \$5,279,000

principal amount of bonds due in 1986 which are convertible prior to maturity into common stock of the Corporation at \$16 per share. In addition, at December 31, 1972 and 1971 that subsidiary had outstanding \$15,000,000 principal amount of bonds due in 1978 which were issued with warrants entitling the holder of each \$1,000 bond to subscribe to 12 shares of common stock of the Corporation, not later than April 30, 1978 at an aggregate price of \$258.

Note 11 Earnings Per Share

Earnings per share are based on the average number of shares of both common and Special Stock, Series A outstanding each year, and the dilutive effect of stock option and stock purchase plans, contingently issuable shares and warrants. The Special Stock, Series A, has been included on a basis equivalent to 2.4334 and 2.3398 common shares of the Corporation for 1972 and 1971, respectively, the applicable conversion rates.

Fully diluted earnings per share reflects, in addition

to the primary computation, (a) the conversion of convertible preferred stock and convertible bonds, (b) the elimination of the dividend requirements on such convertible preferred stock and the interest, net of income taxes, applicable to the convertible bonds, and (c) the conversion of Special Stock, Series A at the rates in effect 10 years after each period. Amounts for 1971 have been restated to reflect the two-for-one stock split which became effective in 1972.

Note 12 Contingencies and Commitments

At December 31, 1972 major commitments by certain subsidiaries consisted of approximately \$326,000,000 for the purchase of vessels under construction; approximately \$2,800,000 for the purchase of terminals and revenue equipment for the trucking companies; and approximately \$14,700,000 for the construction of new utility plant. Mortgage financing has been arranged with respect to a portion of these commitments.

Included in the commitment on construction of vessels is approximately \$36,000,000 applicable to partnerships which the subsidiaries have joined with other ship-owners. In addition, the subsidiaries are contingently liable to the extent of approximately \$69,300,000 representing the other partners' interests in the construction contracts for these vessels.

The Corporation and certain subsidiaries have long-term leases for the rental of properties, office space, vessels and terminal facilities. The aggregate minimum annual rentals for 1973, 1974, 1975, 1976 and 1977 with respect to the major long-term leases are approximately \$48,600,000, \$42,900,000, \$37,800,000, \$33,500,000 and \$28,600,000, respectively.

Certain subsidiaries were contingently liable for letters of credit in the amount of approximately \$37,500,000.

The Corporation has agreed to acquire all of the capital stock of Airborne Freight Corporation (Airborne), an international air freight forwarder, in exchange for approximately 1,700,000 shares of common stock of the Corporation. For the years ended December 31, 1972 and 1971, Airborne operating revenues were \$88,305,000 and \$79,932,000, respectively, and net income was \$1,454,000 and \$1,595,000, respectively. The acquisition is subject to approval by various regulatory agencies and Airborne shareholders. The completion of the transaction, which will be accounted for on a pooling-of-interests basis, would have the effect of reducing primary and fully-diluted earnings per share from income before extraordinary item by 5 cents in 1972 and 4 cents in 1971. Primary and fully diluted earnings per share from extraordinary item would be unchanged.

The Corporation has agreed to acquire, in purchase transactions, all of the capital stock of Global Van Lines, Inc. and Taylor Engineering Corp. in exchange for an undetermined number of shares of common stock of the Corporation.

PEAT, MARWICK, MITCHELL & Co.

CERTIFIED PUBLIC ACCOUNTANTS

1500 WALNUT STREET

PHILADELPHIA, PA. 19102

The Board of Directors and Shareholders
International Utilities Corporation
Wilmington, Delaware

We have examined the consolidated balance sheets of International Utilities Corporation (a Maryland corporation) and subsidiaries as of December 31, 1972 and December 31, 1971 and the related consolidated statements of income, additional paid-in capital, retained earnings, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain consolidated subsidiaries, which statements reflect total assets constituting 3.7% and 21.3%, and sales and revenues constituting 3.6% and 28.3%, respectively, of the related consolidated totals for the years ended December 31, 1972 and 1971. These statements were examined by other auditors whose reports thereon have been furnished to us and

our opinion expressed herein, insofar as it relates to the amounts included for such companies, is based solely upon the reports of the other auditors.

In our opinion, based upon our examination and the aforementioned reports of other auditors, the accompanying financial statements present fairly the consolidated financial position of International Utilities Corporation and subsidiaries at December 31, 1972 and December 31, 1971 and the results of their operations, and changes in additional paid-in capital, retained earnings, and financial position for the years then ended in conformity with generally accepted accounting principles consistently applied during the period subsequent to the change, made as of January 1, 1971, in the method of providing depreciation on ocean vessels, with which we concur, as described in note 6 to the financial statements.

Peat, Marwick, Mitchell & Co.

February 28, 1973

10-Year Financial Comparisons

Adjusted for poolings of interests. (In thousands except per share data)

Sales and revenues:		
Major markets:	1972	1971
Energy	\$ 365,834	\$ 329,652
Transportation/Distribution	547,935	492,142
Environmental	246,013	219,587
Total major markets	1,159,782	1,041,381
Other	32,349	24,573
Total sales and revenues	\$1,192,131	\$1,065,954
Net income:		
Operations	\$ 58,699	\$ 50,051
Disposition of properties and investments	—	—
Extraordinary item	684	—
Net income	\$ 59,383	\$ 50,051
Net income per average common and common equivalent share (1):		
Operations	\$ 1.88	\$ 1.64
Disposition of properties and investments	—	—
Extraordinary item	.02	—
Net income	\$ 1.90	\$ 1.64
Dividends per common share	\$.725	\$.70
Common and common equivalent shares— used in computing net income per share (1) (2)	29,946	28,707
Shares outstanding—year end:		
Common (1)	24,448	21,849
Special Stock, Series A (2)	2,364	2,942
Shareholders' equity per common and common equivalent share	\$ 13.09	\$ 11.84

(1) 1971 and prior years adjusted for subsequent stock split. See note 11 to the financial statements.

(2) 1966 and prior years adjusted for subsequent stock dividends.

1970	1969	1968	1967	1966	1965	1964	1963
\$281,209	\$230,307	\$220,597	\$218,159	\$202,333	\$168,256	\$ 92,720	\$ 70,139
450,607	415,445	381,554	347,415	353,289	298,330	182,625	177,366
195,318	154,589	41,772	36,199	33,354	30,269	24,723	20,936
927,134	800,341	643,923	601,773	588,976	496,855	300,068	268,441
30,323	76,596	87,256	62,470	44,884	29,261	18,335	14,696
\$957,457	\$876,937	\$731,179	\$664,243	\$633,860	\$526,116	\$318,403	\$283,137
\$ 36,095	\$ 26,341	\$ 26,200	\$ 28,578	\$ 26,493	\$ 22,039	\$ 18,278	\$ 13,713
338	10,891	12,113	7,554	10,188	2,842	2,930	5,126
—	—	—	—	—	—	—	—
\$ 36,433	\$ 37,232	\$ 38,313	\$ 36,132	\$ 36,681	\$ 24,881	\$ 21,208	\$ 18,839
\$ 1.18	\$.91	\$.96	\$ 1.07	\$.97	\$.80	\$.68	\$.50
.01	.38	.45	.28	.37	.10	.11	.19
—	—	—	—	—	—	—	—
\$ 1.19	\$ 1.29	\$ 1.41	\$ 1.35	\$ 1.34	\$.90	\$.79	\$.69
\$.67	\$.65	\$.60	\$.56	\$.51	\$.46	\$.42	\$.37
27,934	25,632	23,766	22,730	23,154	23,398	20,760	20,154
19,966	18,362	15,888	13,432	13,226	14,002	13,806	11,524
3,544	4,188	4,188	4,876	4,609	4,489	4,220	4,249
\$ 10.75	\$ 9.91	\$ 8.65	\$ 7.58	\$ 6.25	\$ 5.33	\$ 4.68	\$ 3.34



Directors

Robert C. Heim, *New York, New York*
Chairman of Schroder Capital Corporation.

John T. Jackson, *Haverford, Pennsylvania*
Executive Vice President of IU.

H. Irgens Larsen, * *Armonk, New York*
Vice Chairman of IU.

Willis S. McLeese, *Toronto, Ontario*
President of Trans Canada Freezers, Limited.

J. G. Rubenstein, *Gladwyne, Pennsylvania*
Executive Vice President of IU.

John M. Seabrook, * *Salem, New Jersey*
Chairman and President of IU.

Ira T. Wender, Esq., * *New York, New York*
Managing Director of S. G. Warburg & Company, Inc.

The Earl of Westmorland, *K.C.V.O., London, England*
Deputy Chairman of Sotheby & Company.

Dennis K. Yorath, * *Edmonton, Alberta*
Chairman of the Executive Committee of IU.

** Member of the Executive Committee of the Board of Directors*

Senior Officers

John M. Seabrook, *Chairman and President*

H. Irgens Larsen, *Vice Chairman*

Dennis K. Yorath, *Chairman of the Executive Committee*

John T. Jackson, *Executive Vice President*

J. G. Rubenstein, *Executive Vice President*

Operating Executives

Ivan L. Bielenberg, *Group Vice President—Distribution Services*

Robert F. Calman, *Group Vice President—Development*

John G. Christy, *Group Vice President—Transportation Services*

Anthony A. Goodchild, *Group Vice President—Energy Systems*

John E. Maybin, *Group Vice President—Utilities*

Robert W. Wolcott, Jr., *Group Vice President—Waste Management Services*

Staff Executives

James J. Burke, *Senior Vice President*

Daniel J. Brennan, *Vice President—Taxes and Insurance*

David W. Hughes, III, *Vice President—Management Resources*

Peter Keber, *Vice President, Secretary and Senior Counsel*

Arlen D. Southern, *Vice President—Corporate Affairs*

Anson W. H. Taylor, Jr., *Vice President and General Counsel*

Kenneth A. B. Trippe, *Vice President and Treasurer*

Richard J. Censits, *Controller*

John B. Bartlett, *Assistant Secretary*

H. Beatty Chadwick, *Assistant Secretary*

John K. Eaton, *Assistant Secretary-Treasurer*

William F. Egan, *Assistant Secretary*

Laurent J. Remillard, *Assistant Treasurer*

Transfer Agents

Morgan Guaranty Trust Co. in New York,
Bank of America, N. T. & S. A. in San
Francisco, and Montreal Trust Co. in
Montreal, Toronto, Calgary, Vancouver and
Regina.

Registrars

Chemical Bank in New York, Wells Fargo
Bank N.A. in San Francisco, Crown Trust Co.
in Montreal, Toronto, Calgary and Vancouver,
and The Royal Trust Co. in Regina.

Stock Exchanges

IU's capital stock is traded on the following
exchanges: New York, PBW, Midwest, Pacific
Coast, Toronto, Montreal, Vancouver, London,
and Amsterdam.

Markets and Operating Units

IU was founded in 1924 and grew in its first 35 years around a nucleus of electric, gas, and water utilities. During the last 14 years, a series of selective acquisitions and internal growth combined to shape IU into a diversified operating company. Today IU is a billion dollar company which provides products and services to worldwide energy, transportation/distribution, and environmental markets.

The company has more than 40,000 employees and approximately 30,000 shareholders. It is headquartered in Wilmington, Del., and maintains executive offices in Philadelphia, Pa.

Energy Markets (60% of income and 32% of revenues)

- Electric and gas services—Canadian Utilities, Ltd.*, supplies natural gas to 251 communities and electricity to 364 communities in Alberta, Yukon, and Northwest Territories.
- Ocean shipping—Gotaas-Larsen Shipping Corp. transports energy in the form of oil and coal. It owns and/or operates oil tankers, bulk carriers, and refrigerator ships throughout the world, a fleet of 54 ships totalling 4.3 million deadweight tons, and has ordered three liquefied natural gas (LNG) carriers and two semi-submersible drilling rigs for North Sea oil exploration.
- Energy systems and equipment—IU companies manufacture valves, piping, pressure vessels and related components for power generating plants and petroleum, oil, and gas processing.

Transportation/Distribution Markets (20% of income and 47% of revenues)

- Transportation services—Pacific Intermountain Express and Ryder Truck Lines comprise the third largest trucking network in the U.S. with 12,400 pieces of equipment providing service through 285 terminals to virtually every major U.S. market.
- Distribution services—IU companies operate a network for the distribution of paper and institutional food products, based in the southeastern U.S., and also distribute supplies and materials to industrial firms and to plumbing, heating and electric contractors.

Environmental Markets (20% of income and 21% of revenues)

- Water management services—General Waterworks Corp.* provides fresh water to more than 350,000 customers in 18 states and one Canadian province.
- Waste management services—IU subsidiaries process and reclaim solid wastes for steel mills in six countries and quarry and process lime and related materials for pollution control applications.
- Land management and tourism—C. Brewer and Co., Ltd.*, a 54%-owned affiliate, controls 265,000 acres in Hawaii where its environmental activities strike an ecological balance between agriculture (sugar, molasses, macadamia nuts) and land development (resort villages, hotels, shopping facilities, golf courses and other recreation-related facilities). Gotaas-Larsen owns, wholly or in part, six cruise ships, five of which are in the Caribbean market.

*These subsidiaries have publicly traded securities outstanding.

Corporate Headquarters
The Wilmington Tower
Wilmington, Del. 19801
(302) 652-1121

Executive Offices
1500 Walnut Street
Philadelphia, Pa. 19102
(215) 985-6600

For the annual report
statistical supplement,
write IU Corporate
Affairs Department.

Our corporate
objective is to provide
shareholders
with above-average
earnings growth
by operating
a limited number
of complementary
businesses
balanced to produce
maximum return
with reasonable risk.



Diversified in Worldwide Energy,
Transportation/Distribution and Environmental Markets